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AGREEMENT
BETWEEN
PACIFIC GAS AND ELECTRIC COMPANY
AND
CITY AND COUNTY OF SAN FRANCISCO

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AGREEMENT

BETWEEN

PACIFIC GAS AND ELECTRIC COMPANY

AND

CITY AND COUNTY OF SAN FRANCISCO

This Agreement is made and entered into as of this _____ day of _____, 1987, by and between Pacific Gas and Electric Company, (PG&E), and the City and County of San Francisco, (City).

WITNESSETH:

WHEREAS: PG&E, a corporation organized under California law, is engaged, among other things, in the business of generating, transmitting, and distributing Power in northern and central California; and

WHEREAS: City is a municipal corporation organized under California law and is acting through its Public Utilities Commission and its Board of Supervisors, as may be applicable; and

WHEREAS: City owns and operates the Hetch Hetchy Project, a hydroelectric project consisting primarily of three reservoirs and three hydroelectric generating plants in Tuolumne County, California, and two transmission lines extending from those plants to PG&E's Newark Substation at Newark, Alameda County, California and to a point of interconnection with PG&E's Bellota-Gregg transmission line

at City's Warnerville Substation in Stanislaus County, California; and

WHEREAS: City's transmission facilities are connected directly to the electric systems of the Modesto Irrigation District and the Turlock Irrigation District, and to a transmission line extending to Riverbank Army Ammunition Plant; and

WHEREAS: City does not own or control any transmission lines between Newark Substation or Warnerville Substation and City's Municipal Load or Airport Tenants or any distribution system within City; and

WHEREAS: PG&E owns and operates electric transmission lines extending between Newark and Warnerville Substations and City's Municipal Load and Airport Tenants, electric generating plants both inside and outside of City, and a distribution system supplying electric service to the general public within City; and

WHEREAS: PG&E has, pursuant to a contract effective as of March 14, 1945 (1945 Agreement), as amended, delivered the Power from City Plants to satisfy City's Municipal Load and for sale to certain City customers, as and when necessary to utilize fully any Power output from City Plants which was surplus to City's Municipal Load; and

WHEREAS: the 1945 Agreement, as amended, will expire as of midnight, December 31, 1987; and

WHEREAS: under the 1945 Agreement, as amended, and its predecessor agreements, the Parties have been engaged in a long-term business relationship in which the good faith of each Party has been demonstrated in the interpretation and implementation of those agreements; and

WHEREAS: under the 1945 Agreement, as amended, and its predecessor agreements, City's payments for services rendered by PG&E have been fully and timely paid; and

WHEREAS: for the purpose of enabling City to make use of generation from City Plants in compliance with the Raker Act at the expiration of the 1945 Agreement, as amended, City desires that PG&E furnish, and PG&E is willing to furnish, facilities to transmit and distribute a portion of the output of City Plants for City, and to furnish Supplemental Power, support service and other services as hereinafter provided;

NOW THEREFORE, the Parties agree as follows:

1 DEFINITIONS - Whenever used in this Agreement, including all appendices and exhibits hereto, the following terms shall have the following meanings, as applicable. Where appropriate, the singular, plural or possessive form of a term may be used in the Agreement. The capitalization of the terms shall indicate the applicability of the following definitions.

1.1 Agreement - This Agreement between PG&E and City.

1.2 Airport Tenants - The tenants at the San Francisco International Airport whose electric service is purchased at retail from City, and their respective loads.

1.3 Assigned Customers - PG&E retail customers and their respective loads as assigned to City pursuant to Section 7.1.

1.4 Automatic Generation Control - The control of the Power output of electric generators within a Control Area in response to changes in electric frequency, transmission tie-line loading, and regulation, or the relation of these to each other so as to maintain the scheduled electric frequency and/or the scheduled electric interchange with other Control Areas within predetermined limits.

1.5 Billing Period - 0000 hour of the first day to 2400 hour of the last day of each calendar month.

1.6 Capacity Rating - The capacity rating of City Plants pursuant to Appendix B.

1.7 Capacity Reserve - Generating capacity that is in excess of the capacity ordinarily needed by an electric utility to meet peak loads and that is maintained in accordance with Good Utility Practice to provide a margin for maintenance and to meet contingencies including, but not limited to, unexpected load growth, unplanned delays of new generating units or purchases, Forced Outages, ambient temperatures, and other events that could affect both the Power supply and demand.

1.8 City - The City and County of San Francisco.

1.9 City Capacity Reserve - The level of Capacity Reserve that City is required to provide pursuant to Section 4.1.

1.10 City Continuous Spinning Reserve - The minimum amount of Spinning Reserve that City is required to provide pursuant to Section 4.2.

1.11 City Plants - City's Hetch Hetchy Project powerhouses, electric Generating Units, and appurtenant facilities and equipment.

1.12 Control Area - A balanced portion of an overall electric power system in which the electric generating resources and net interchanges with other electric power systems are automatically controlled on an instantaneous basis in order to meet the total load responsibility in that portion of the overall electric power system.

1.13 Cost - Capital expenditures, operation, maintenance, engineering, administrative and general expenses, taxes, and depreciation, as determined in accordance with the FERC Uniform System of Accounts, as amended or superseded from time to time, and costs of capital. PG&E's cost of capital, except as it applies to the rates in Appendix A, shall be calculated on the basis of the rate of return on PG&E's rate base most recently allowed by the CPUC prior to the relevant transaction.

1.14 CPUC - The Public Utilities Commission of the State of California or its regulatory successor, as applicable.

1.15 Deferred Delivery Account - The account established to reconcile Excess Energy that has not been sold to City's customers, pursuant to Section 7.2.

1.16 Districts - Modesto and Turlock.

1.17 Effective Date - The date on which this Agreement becomes effective, as provided in Section 9.26.

1.18 Emergency - An unplanned operational event, series of operational events, or circumstances, resulting from Uncontrollable Forces pursuant to Section 9.27, that causes a loss or interruption of generating or transmission capabilities, in whole or in part, and requires the taking of immediate action; (a) to preserve, maintain, or reestablish the safety, integrity, or operability of the facilities that have been affected, (b) to protect the health or safety of employees or the public, or (c) to prevent or minimize any significant adverse environmental effects. Contractual or mechanical or electrical problems relating to electric facilities or their prime-mover energy source not corrected pursuant to Good Utility Practice shall not be considered Emergencies. Insufficient water supply resulting from drought conditions shall not constitute an Emergency.

1.19 Emergency Power - Power sold to City in the event of a Forced Outage, pursuant to Section 2.6.

1.20 Energy Control Center - PG&E's central dispatch office in San Francisco, California, or other office or center which PG&E may designate.

1.21 Excess Energy - Electric energy generated by City Plants that is in excess of Supported Firm Energy.

1.22 FERC - The Federal Energy Regulatory Commission or its regulatory successor, as applicable.

1.23 Firm Energy - The energy component of Firm Power.

1.24 Firm Obligations to Districts - City's obligation to provide the Districts' annual firm capacity each Year (PDC less the Forecasted Municipal Load annual peak for that Year), and associated Supported Firm Energy at an annual capacity factor of sixty-five (65) percent, and additional firm capacity, on any half-hour, up to PDC less the sum of scheduled Municipal Load and the Districts' annual firm capacity. Supported Firm Energy shall be scheduled during each month of each Year at capacity factors between sixty (60) to seventy (70) percent, based on the Districts' annual firm capacity.

1.25 Firm Power - Electric Power which, consistent with Good Utility Practice, (a) is intended to be available to a customer or purchaser at the times, capacity factors and rates of delivery as agreed with the supplier, (b) is backed by Capacity Reserve and Spinning Reserve to ensure that such

Power continues to be available in the event of operating and planning contingencies, (c) is backed with sufficient prime-mover energy to ensure that such Power can be supplied at the specified capacity factor, (d) is backed with sufficient firm transmission capacity to move such Power from generating sources to a point or points where it can be utilized by the customer or purchaser, and (e) is not subject to interruption except for Uncontrollable Forces.

1.26 Firm Resale Load - City's contractual commitment to meet Firm Obligations to Districts and to provide Firm Power to Airport Tenants and Riverbank.

1.27 Firm Transmission and Distribution Service - Electric transmission and distribution service provided by PG&E to City pursuant to Section 3, subject to the conditions specified in Section 9.9.

1.28 Forced Outage - Any full or partial outage of City Plants and/or transmission facilities resulting from an Emergency.

1.29 Forecasted Municipal Load - Municipal Load as forecasted by City pursuant to Section 5.8 and Appendix I.

1.30 Generating Units - City's electric generating units located at the Hetch Hetchy Project.

1.31 Good Utility Practice - Practices, standards, methods and procedures that are commonly used to plan for and operate, an electric utility's system safely, reliably,

and economically with due regard for effects on other interconnected utilities, applicable laws, governmental rules, regulations and orders, conservation of natural resources and protection of the environment. Such practices, standards, methods and procedures shall be within the scope of those engaged in or approved by and commonly used by utilities that: (i) are located in the State of California, and (ii) operate a Control Area recognized by the WSCC.

1.32 Hetch Hetchy Project - The hydroelectric generating facilities in the Tuolumne River watershed and associated transmission facilities owned by City, as now developed or as may be developed in the future, which are subject to the Raker Act.

1.33 Interconnection - The physical connection of PG&E's and City's electric facilities.

1.34 Interruptible Power - Power that is freely curtailable by the supplier or transmitter without notice.

1.35 Loop Flow - The inadvertent flow of electric energy over parallel transmission system paths rather than over a scheduled or contractual path, whether or not such flow is circular.

1.36 Maintenance Power - Maintenance Power sold to City by PG&E during Scheduled Maintenance Outages, pursuant to Section 2.5.

1.37 March 1 Forecast - The forecasts which the Parties are to furnish and exchange pursuant to Section 5.8 and Appendix I.

1.38 Minimum Project Energy - Minimum energy production requirements from City Plants as provided in Appendix F.

1.39 Minimum Storage Criteria - City's minimum reservoir storage criteria as provided in Appendix F.

1.40 Modesto - The Modesto Irrigation District.

1.41 Municipal Deviation Account - The account established to reconcile the difference between actual and scheduled Municipal Load energy, pursuant to Section 8.1.3.

1.42 Municipal Deviation Energy - Energy associated with the Municipal Deviation Account.

1.43 Municipal Load - Power required for City's municipal public purposes pursuant to the Raker Act, as may be designated by City, both inside and outside of City. For purposes of this Agreement, such load shall not include load served by City as resale load.

1.44 Nonfirm Energy - Electric energy that is not firm and may be interrupted by the supplier.

1.45 Parties - PG&E and City.

1.46 Party - PG&E or City.

1.47 PDC - Project Dependable Capacity.

1.48 PG&E - The Pacific Gas and Electric Company.

1.49 Points of Delivery - Those points of Interconnection listed in Appendix D, where PG&E delivers or receives Power for the account of City.

1.50 Points of Receipt - Those points of Interconnection listed in Appendix D where PG&E receives Power for the account of City.

1.51 Power - Electric capacity and energy.

1.52 Project Dependable Capacity (PDC) - The agreed-to dry year capacity rating of City Plants, initially agreed to be 260 MW at City Plants' bus pursuant to Section 6.

1.53 Raker Act - That Act of Congress, 38 Stat. 242 (1913), which, in part, grants City the rights to own and operate the Hetch Hetchy Project.

1.54 Rate Schedules - Those schedules of rates and charges provided in Appendix A.

1.55 Reserves - Capacity Reserve and/or Spinning Reserve.

1.56 Retail Power - Power sold to City pursuant to Section 2.3 to meet any portion of City's Municipal Load that cannot be met by PDC and/or energy from City Plants and that is not resold by City.

1.57 Riverbank - Riverbank Army Ammunition Plant, a resale customer of City located in Riverbank, California, that is owned by the United States Department of Defense and operated by Norris Industries or its successor.

1.58 Scheduled Maintenance Outages - Maintenance outages of City Plants or City transmission facilities coordinated pursuant to Section 5.7 and scheduled pursuant to Section 5.3 and Appendix H.

1.59 Service Area - That area within the exterior geographic boundaries of the several areas electrically served at retail, now or in the future, by PG&E, and those areas adjacent thereto in northern and central California.

1.60 Spinning Reserve - Available unloaded generating resources that are operating and synchronized to PG&E's system, and (a) are able instantaneously to take load on demand from either Automatic Generation Control, supervisory control, or manual control by the local operator on duty at the generating resource or (b) capable of being fully loaded within ten (10) minutes when dispatched or requested by PG&E's Energy Control Center personnel and (c) hydroelectric generating resources shall be included only to the extent that there is sufficient water immediately available to enable such resources to carry load for at least two (2) hours.

1.61 Supplemental Power - Power sold to City by PG&E to meet portions of City's Firm Resale Load pursuant to Section 2.4.

1.62 Supported Firm Energy - Energy that is associated with PDC and that is supported by PG&E pursuant to this Agreement, consisting of energy used to meet Municipal Load

and energy scheduled by City as part of its Firm Obligations to Districts pursuant to City-Districts agreements.

1.63 Third Party - Any person or entity other than PG&E or City.

1.64 Time Period - Any of the delivery periods titled "on-peak," "off-peak" and "partial-peak", as defined in PG&E's retail power industrial time-of-use rate schedule, Schedule E-20, or its successor on file with the CPUC.

1.65 Turlock - The Turlock Irrigation District.

1.66 Uncontrollable Forces - Those Conditions or circumstances described in Section 9.27.

1.67 Work Day - All days except Saturday, Sunday and PG&E designated holidays.

1.68 Year - A calendar year.

2 POWER SALES TO CITY

2.1 General - It is the intent of the Parties that City shall schedule its resources to meet its loads pursuant to Section 5.3 and Appendix H. Consistent with Good Utility Practice, PG&E shall sell, and deliver or provide to City, Power and other services as required and requested by City to meet its Municipal Load and Firm Resale Load under the express terms and conditions of this Agreement.

2.2 Retail and Resale Jurisdictions - Power sold by PG&E to City for its Municipal Load is provided pursuant to Section 2.3. Power sold by PG&E to City for its Firm Resale Load is provided under the Federal Power Act.

2.3 Retail Power - PG&E shall sell to City and City shall purchase from PG&E Retail Power under the applicable Retail Power rate schedules on file with the CPUC to meet any portion of Municipal Load which cannot be met by generation from City Plants. Such power shall not be resold by City.

2.4 Resale Power - PG&E shall sell City Supplemental Power, (a) to meet any of City's Firm Obligations to Districts which cannot, for reasons other than Forced Outages or Scheduled Maintenance Outages, be met by PDC and/or energy from City Plants, or by purchases of Firm Power from Third Parties, and (b) for the Airport Tenants and Riverbank portion of City's Firm Resale Load that cannot be met by Excess Energy and/or purchases of Firm Power from Third Parties.

2.5 Maintenance Power

2.5.1 At City's request and if City coordinates its maintenance schedule with PG&E in accordance with Section 5.7, PG&E shall sell Maintenance Power to City during Scheduled Maintenance Outages. City shall schedule, Maintenance Power pursuant to Section 5.3 and Appendix H. Maintenance Power shall be provided only until the end of the specified Scheduled Maintenance Outage period as forecasted or rescheduled pursuant to Section 5.7.

2.5.2 Subject to the limitations set forth in Section 2.7.3 and the Capacity Ratings of City Plants in

Appendix B, the amount of capacity provided under the Rate Schedule for Maintenance Power in Appendix A shall be no greater than the reduction in Capacity Rating of City Plants resulting from the removal of a Generating Unit or transmission facilities for Scheduled Maintenance Outages, adjusted for losses. The amount of energy available from PG&E under the Rate Schedule for Maintenance Power shall at all times approximate the amount of Supported Firm Energy that otherwise would have been scheduled from City Plants or over the transmission facilities on Scheduled Maintenance Outage, adjusted for losses. Once Maintenance Power is scheduled by City pursuant to Appendix H, City shall be obligated to purchase such Maintenance Power.

2.6 Emergency Power

2.6.1 At City's request, PG&E shall sell Emergency Power to City in the event of a Forced Outage of a Generating Unit or City transmission facility. City shall use its best efforts to correct the conditions associated with its need for Emergency Power at the earliest possible time.

2.6.2 Subject to the limitations set forth in Section 2.7.3 and the Capacity Ratings of City Plants in Appendix B, the amount of capacity provided under the Rate Schedule for Emergency Power in Appendix A shall be no greater than the reduction in Capacity Rating of City Plants resulting from the loss of a Generating Unit or transmission

facilities due to a Forced Outage, adjusted for losses. The amount of energy available from PG&E under the Rate Schedule for Emergency Power shall at all times approximate the amount of Supported Firm Energy that otherwise would have been scheduled from City Plants or over the transmission facilities affected by the Forced Outage, adjusted for losses. Emergency Power shall be scheduled pursuant to Section 5.3 and Appendix H.

2.7 Priority of Hetch Hetchy Resource and Scope of PG&E's Obligation

2.7.1 Hetch Hetchy Firm Resource - As of the Effective Date of this Agreement, pursuant to separate agreements between City and the Districts and City's obligations under the Raker Act, PDC and Supported Firm Energy from City Plants shall serve the following loads in order of priority:

FIRST: Municipal Load

SECOND: Firm Obligations to Districts

2.7.2 Hetch Hetchy Nonfirm Resource - As of the Effective Date of this Agreement, Excess Energy shall serve the following loads in order of priority;

FIRST: Airport Tenants and Districts

SECOND: Riverbank

THIRD: Other sales of Excess Energy

FOURTH: Assigned Customers

FIFTH: Deferred Delivery Account

City shall use its best efforts to sell available Excess Energy to City's customers before either sales to Assigned Customers or utilization of the Deferred Delivery Account. City shall curtail its scheduled deliveries of Excess Energy in the event of a Forced Outage if City cannot meet scheduled Firm Power commitments from its own generation. Except as otherwise provided in this Agreement, nothing in this Section 2.7.2 shall require City to: (a) make sales of Excess Energy to Third Parties (Third Priority, above) at prices significantly below prevailing market prices of Nonfirm Energy, determined by using pricing mechanisms, such as share-the-savings formulas, that are commonly utilized within the electric utility industry, or (b) unnecessarily spill water at City Plants.

2.7.3 Scope of PG&E's Obligation - It is the intent of the Parties that PG&E provide the various services to City under this Agreement only to the extent such services support City's Municipal Load and Firm Resale Load. Except as expressly provided in this Agreement, PG&E's support of City's Municipal Load and Firm Resale Load shall not exceed such loads, less Minimum Project Energy as specified in Section 3 of Appendix F, adjusted for losses.

2.7.3.1 Scope of PG&E's Resale Obligation for Support of Firm Obligations to the Districts - PG&E shall provide Emergency Power and Maintenance Power to City in accordance with Sections 2.5 and 2.6 up to the sum of

Municipal Load and City's Firm Obligations to Districts, less the sum of generation from City Plants, Firm Power purchased by City from Third Parties and scheduled Supplemental Power. In no event shall PG&E be obligated to (a) support Municipal Load and Firm Obligations to Districts at rates of delivery in excess of PDC or (b) to provide Emergency Power, Maintenance Power and Supplemental Power at rates of delivery in excess of PDC, less generation from City Plants and Firm Power purchased by City from Third Parties, except as provided in Section 2.7.3.2.

2.7.3.2 Scope of PG&E's Resale Obligation for Support of Airport Tenants and Riverbank Loads - PG&E shall provide capacity to City under the Rate Schedule for Supplemental Power in Appendix A to meet the demands of Airport Tenants and Riverbank that are not met with Firm Power purchased and scheduled by City from Third Parties. PG&E shall provide energy to City under the Rate Schedule for Supplemental Power in Appendix A to meet the total energy loads of Airport Tenants and Riverbank that are not met with energy purchased and scheduled from Third Parties or Excess Energy scheduled to Airport Tenants and Riverbank.

2.8 Reserve

2.8.1 At City's request, PG&E shall sell Capacity Reserve to satisfy City's obligation under Section 4.1; provided, that City gives notice pursuant to Sections 4.1 and 5.8 and Appendix I.

2.8.2 At City's request, PG&E shall sell Spinning Reserve to satisfy City's obligation under Section 4.2. PG&E will provide such Spinning Reserve up to the level of Capacity Reserve purchased by City from PG&E pursuant to Section 2.8.1; provided, that (a) City gives at least seven (7) days notice to PG&E that such Capacity Reserve is to be placed into service as Spinning Reserve, and (b) City notifies PG&E pursuant to Section 5.8 and Appendix I of the amount of Spinning Reserve it intends to purchase from PG&E. PG&E shall sell Spinning Reserve to City pursuant to this Section 2.8.2 on less than seven (7) days notice if PG&E determines that it can place additional Spinning Reserve into service on City's behalf on less than seven (7) days notice.

2.9 Third Party Purchases and Sales - Certain services (support services and transmission services) and arrangements (rates, accounting provisions, arrangements for Assigned Customers and the Deferred Delivery Account) are provided under this Agreement by PG&E to City in contemplation of City's purchase from PG&E of City's requirements in excess of its own generation and transmission. If City elects to purchase Power, support services or transmission services from a Third Party, City promptly shall notify PG&E of its election and the Parties shall meet promptly thereafter to negotiate amendments to

the services and arrangements affected by that election to the extent required.

3 TRANSMISSION AND DISTRIBUTION

3.1 Transmission and Distribution Service from Interconnections - The transmission and distribution service provided to City by PG&E pursuant to this Section 3 is a service only, and shall not be construed to create additional transmission capacity on City's transmission system or to create in City any ownership or property rights in any of PG&E's capacity or facilities used to provide such service, except as expressly provided in this Agreement. Such services are established only to deliver City's generation from Interconnections to City's loads where (a) City has no physical facilities in place to make such deliveries or (b) City's facilities are not adequate to make such deliveries.

3.1.1 Firm Transmission and Distribution Service and Rates for Municipal Load - PG&E shall provide Firm Transmission and Distribution Service from Interconnections to Municipal Load in accordance with this Section 3 and Exhibit D-1 of Appendix D. City shall pay for actual amounts of energy, adjusted for losses, delivered to Municipal Load in accordance with Appendix A.

3.1.2 Firm Transmission Service and Rates at Interconnections - PG&E shall provide to City firm transmission service from Warnerville Substation and from

Newark Substation, as provided in Exhibit D-1 of Appendix D. PG&E shall also provide firm transmission service from Interconnections to Airport Tenants in accordance with this Section 3.1.2. All deliveries of Power by City shall be adjusted for losses pursuant to Section 3.2. The rates for firm transmission service pursuant to this Section 3.1.2 are provided in Appendix A.

3.1.3 Curtailment Provisions - Firm transmission and distribution service provided under this Section 3.1 shall be continued by PG&E to the extent possible, consistent with Good Utility Practice. If the full amount of firm transmission and distribution service cannot be maintained because of a Forced Outage, City shall be curtailed in proportion to its share of the firm use of the affected transmission and/or distribution facilities at the time of curtailment.

3.1.4 Interruptible Transmission Service and Rates At Interconnections - In addition to firm transmission service provided for in this Section 3.1 and except as otherwise provided herein, PG&E shall provide interruptible transmission service to City on an as-available, interruptible, basis for energy to or from Interconnections, at rates provided in Appendix A, subject to the notice and other requirements set forth in this Agreement which are applicable to this service. The amount of interruptible transmission service that PG&E agrees to provide shall be

the lesser of (a) the amount requested by City in its notice provided pursuant to this Section 3.1.4, or (b) the amount PG&E in its sole judgment determines is available and so advises City, if City accepts that amount. City shall give reasonable advance notice to PG&E of its interruptible transmission service requests. Such notice may be given orally. City shall include with its notice requesting interruptible transmission service the following information:

(i) Source of energy and proposed point of delivery into the PG&E electric system.

(ii) Initial date and termination of transmission service.

(iii) Amount and rate of energy deliveries to or from Interconnections including variations and other applicable information which PG&E deems necessary in order to determine the availability of interruptible transmission service.

City shall schedule such energy in accordance with Section 5.3 and Appendix H. PG&E shall not be required to provide interruptible transmission service to City that (a) is not specified in the notice provided under this Section 3.1.4, or (b) to the extent the transmission facilities required for such service are committed to be loaded from time-to-time during the period such service is requested, or (c) if the provision such service might

interfere with PG&E's ability to operate its electric system in accordance with Good Utility Practice or might otherwise impair or reduce the reliability of service to PG&E's customers. PG&E shall not be required to construct transmission facilities in order to provide City interruptible transmission service.

If PG&E receives more requests for interruptible transmission service utilizing a transmission facility necessary to provide service requested by City than there is transmission capacity available over that facility, PG&E shall notify City and the other requesting parties of this limitation so City and those other requesting parties may agree among each other upon a method of allocating such available transmission capacity; provided that, any allocation to City shall be subject to the provisions of this Section 3.1.4 and any allocation to other requesting parties shall be in accordance with the applicable provisions of their separate agreements with PG&E. If agreement cannot be reached within thirty (30) minutes after PG&E's notice hereunder, PG&E may allocate such available transmission capacity in any manner it determines appropriate, including a determination not to allocate any of such transmission capacity to City.

Interruptible transmission service shall be subject to interruption when PG&E, in its sole judgment, determines such interruption is desirable or necessary.

Normally, PG&E will endeavor to give City reasonable advance notice of any planned interruption; provided, that PG&E may interrupt such service without notice.

3.2 Transmission and Distribution Losses - All deliveries of Power to City or for City's account pursuant to this Agreement shall be adjusted for losses as provided in Exhibit D-2 of Appendix D. Either Party may request a revision of Exhibit D-2 of Appendix D if significant contractual or physical changes occur on either Party's system. The requesting Party shall prepare and submit to the other Party an analysis supporting its request for revision. Such revised loss factors shall become effective immediately when agreed to by the Parties.

3.3 Transmission and Distribution Improvements

3.3.1 Ownership of Serving Facilities - Transmission and distribution improvements installed by PG&E in order to provide Firm Transmission and Distribution Service pursuant to this Section 3 shall be installed in accordance with this Section 3.3 and shall be owned, operated and maintained by PG&E, unless otherwise agreed by the Parties.

3.3.2 Special Facilities - If, in order to satisfy a request for service by City pursuant to this Agreement, PG&E is required to (a) install transmission or distribution facilities which are in addition to or in substitution for the standard facilities which PG&E normally

provides for transmission or distribution service or (b) allocate facilities for the sole use of City which would not normally be allocated for the sole use of City, City shall pay the Costs of those facilities, including such continuing ownership Costs as may be applicable, as set forth in PG&E's then current Electric Rule No. 2 or successor on file with the CPUC.

3.3.3 Additional Facilities and Additional City Load - If it is necessary for PG&E to extend, reinforce, or change in any way its standard transmission, distribution or service facilities or to perform any other line extension or reinforcement work to furnish firm transmission and distribution service to any City load, City and PG&E will pay the additional cost of such extensions or reinforcements as set forth in PG&E's then current Electric Rule Nos. 15, 15.2 and 16 or successor(s) on file with the CPUC; provided, that if any new or additional facilities are needed to provide firm transmission and distribution service to any single new or additional City load with a demand of 500 kW or more, City shall pay the Costs as determined in accordance with the standard service facilities provisions of PG&E's large commercial and industrial retail rate schedule, Schedule E-20, or its successor on file with the CPUC.

3.3.4 Transmission and Distribution Improvements - PG&E may charge City for any improvements that are needed on PG&E's transmission and distribution facilities as a result of City's request for firm transmission and distribution in excess of the amounts provided in Exhibit D-1 of Appendix D. PG&E shall prepare and submit to City an analysis supporting such charges.

3.3.5 Responsibility for Changes and Relocations - If changes to City's facilities are required because of a change on PG&E's transmission system and such changes benefit both Parties, then each Party shall be responsible for the Costs of all changes to its own facilities. If changes to facilities are required on the first Party's system as a result of a change to the second Party's system and such change is made on the first Party's system solely for the benefit of the second Party or a Third Party (or both) and not for the benefit of the first Party, then the second Party benefiting from such change or representing the Third Party shall pay all Costs resulting from or necessitated by the changes to all facilities.

3.4 Limited Duty to Construct Facilities - Nothing contained within this Agreement shall require PG&E to (a) construct additional transmission or distribution facilities if the construction of such facilities is inconsistent with Good Utility Practice or if such facilities duplicate any portion of PG&E's transmission or

distribution system, (b) provide transmission or distribution service to a PG&E retail customer except as expressly provided in this Agreement, (c) construct transmission or distribution facilities outside the area then electrically served at retail by PG&E, or (d) to construct transmission or distribution facilities for Third Party transactions.

4 CITY RESERVE REQUIREMENTS

4.1 City Capacity Reserve

4.1.1 City shall meet the required minimum level of City Capacity Reserve (twenty-three (23) percent of PDC). City Capacity Reserve for the years 1988, 1989, 1990, 1991, and 1992 shall be the amounts listed in Appendix C.

4.1.2 In the event (a) City makes significant future changes to its generation resources or load obligations and (b) PG&E determines that the total Capacity Reserve that PG&E must provide to maintain system reliability equal to that existing prior to such changes are increased, then City shall, at PG&E's request, install or otherwise provide additional Capacity Reserve in the full amount of the required increase in Capacity Reserve. The Parties agree that no such increase is necessary at the time this Agreement is executed.

4.1.3 City may provide City Capacity Reserve required by this Section 4.1 by making Capacity Reserve available to the Service Area. Such Capacity Reserve shall

meet the requirements of Section 4.1.4. Each Year, but no later than one hundred twenty (120) days after the Parties' exchange their March 1 Forecasts, City shall provide PG&E a binding forecast that states the manner in which City plans to satisfy City Capacity Reserve requirements for the following five (5) Years including, but not limited to, the amount of City Capacity Reserve City shall purchase from PG&E during the fifth following Year. Except as provided in Sections 2.8.1 or 4.1.5, City shall purchase and PG&E shall provide the amount of Capacity Reserve listed in City's binding forecast for the fifth following Year.

4.1.4 In determining whether City has met its Capacity Reserve obligation: (a) determinations shall be made in accordance with Good Utility Practice, (b) Capacity Reserve not purchased from PG&E shall be equivalent in reliability and availability to the average of resources of the same type within PG&E's Service Area and shall be backed with adequate firm energy and include firm transmission capacity to deliver such Capacity Reserve into the integrated transmission system so that such Capacity Reserve can be used in the Service Area without operational constraints that limit the usefulness of the Capacity Reserve, (c) capacity credit for City Plants shall not be counted in excess of PDC, and (d) capacity credit for any generating resource or purchase from a Third Party shall not be counted in excess of City's share of the dependable

capacity of the generating resource or purchase. City shall demonstrate that Capacity Reserve it provides under this Agreement meets the requirements of this Section 4.1.4.

4.1.5 If, during any month of any Year, City does not provide City Capacity Reserve as provided in this Section 4.1 from any of the sources specified, other than PG&E, in City's forecast pursuant to Section 4.1.3, such deficiency shall be deemed purchased from PG&E, at rates provided in Appendix A. However, such a deemed purchase shall not cause the City to maintain or purchase Capacity Reserve in any Year in excess of the level of Capacity Reserve estimated by PG&E in the prior Year to be maintained by PG&E for that Year.

4.2 City Spinning Reserve

4.2.1 As a minimum, City shall provide from City Plants or purchase from PG&E or Third Parties Spinning Reserve in an amount necessary to meet the City Continuous Spinning Reserve requirement. The minimum City Continuous Spinning Reserve requirement initially shall be Spinning Reserve that totals to seven (7) percent of the continuous Power output of City Plants as measured at the City Plants, plus seven (7) percent of Firm Power that City receives from Third Parties, plus 107 percent of the Interruptible Power or Nonfirm Power that City receives from Third Parties, minus seven (7) percent of the continuous Power output of

City Plants as measured at the City Plants that City delivers to Third Parties as Excess Energy.

4.2.2 If City elects to provide Spinning Reserve from City Plants, those plants must be under either (a) supervisory control available for loading as requested by PG&E's Energy Control Center or (b) Automatic Generation Control during the period of time that they are to be used to provide Spinning Reserve. All City Spinning Reserve shall be scheduled pursuant to Sections 2.8.2 and 5.3 and Appendix H.

4.2.3 If at any time City's Spinning Reserve falls below City Continuous Spinning Reserve requirement as determined in Section 4.2.1, City shall take immediate action to restore its Spinning Reserve to the City Continuous Spinning Reserve requirement. In the event City takes such action and, despite its best efforts, is unable to restore Spinning Reserve within ten (10) minutes, the deficiency shall be deemed purchased from PG&E at rates provided in Appendix A.

4.2.4 Should PG&E's Service Area Spinning Reserve obligations change (e.g., under Western Systems Coordinating Council (WSCC) and the California Power Pool or any succeeding authority), City's Continuous Spinning Reserve requirements shall be revised to maintain City's proportionate share of the new PG&E Service Area

obligations. PG&E shall notify and discuss with City such revision prior to implementation.

5 COORDINATED OPERATION

5.1 Interconnection

5.1.1 Each Party shall give the other Party adequate advance written notice if that Party proposes to change its Interconnection with the other Party or establish an interconnection with a Third Party utility, where that change or additional interconnection may impact the other Party. In particular, each Party shall give the other Party written notice if that Party proposes to change or make additional interconnections with the Districts. In all cases, such advance notice shall provide adequate time to complete all of the following:

(a) studying the effects on the additional interconnection or changed Interconnection,

(b) agreeing on the mitigation measures to be taken,

(c) review and approval by regulatory agencies if necessary,

(d) obtaining required approvals and permits,

(e) constructing the necessary facilities,

(f) agreeing on any necessary additional contract provisions, and

(g) implementing the approved measures.

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(b) agreeing on the mitigation measures to be taken,

(c) review and approval by regulatory agencies if necessary,

(d) obtaining required approvals and permits,

(e) constructing the necessary facilities,

(f) agreeing on any necessary additional contract provisions, and

(g) implementing the approved measures.

5.1.2 When written notice is given, the Parties shall attempt to agree upon those additional contract provisions, Costs, measures, or equipment that are required by Good Utility Practice as a result of the proposed change in the Interconnection or additional interconnection.

5.1.3 If City proposes to make or change an interconnection and PG&E believes City's proposed interconnection will impair the reliability of either PG&E's electric system or service to its customers, City shall obtain PG&E's agreement prior to making or changing such proposed change or interconnection. If PG&E does not agree to the proposed change or interconnection, City reserves the right to contest PG&E's decision or the amount of mitigation or compensation determined by PG&E by means of the arbitration procedures in Section 9.29; however, City shall not make or change the interconnection unless and until the arbitration results in a decision favorable to City's position and City and PG&E have complied fully with that decision.

5.1.4 Each Party shall install, operate and maintain equipment for its own facilities and make changes in that equipment, as agreed by the Parties, in order to accommodate any proposed and agreed-upon changes in the Interconnections.

5.1.5 All Interconnections and additional interconnections shall be consistent with Good Utility

Practice. Facilities or control equipment at existing and proposed interconnections shall be provided, operated, and maintained in accordance with Good Utility Practice and in a manner that ensures the safe and reliable operation of the respective Parties' electric systems.

5.2 Transmission System Effects

5.2.1 Adverse Effects and Detrimental Flows - Neither Party shall enter into an agreement with Third Party utilities for transmission arrangements if that service is likely to adversely affect the other Party's electric system or cause detrimental electric flows on the other Party's electric system unless those adverse effects or detrimental electric flows are totally mitigated or the other Party is fully compensated therefor in accordance with a separate agreement between the Parties pursuant to this Section 5.2.

5.2.2 Prior Agreement - The Parties agree that the Party entering into a transmission arrangement with a Third Party utility, which may cause adverse effect or detrimental electric flows on the electric system of the other Party, shall notify the other Party and attempt in good faith to obtain the prior agreement of the other Party pursuant to this Section 5.2.

5.2.3 Notification - If required pursuant to Section 5.2.2, the Party proposing a transmission arrangement with a Third Party utility (Notifying Party) shall give the other Party (Affected Party) adequate advance

notice of the proposed transmission arrangement, including a full description of that transmission arrangement sufficient to complete all of the procedures contemplated by this Section 5.2, including, but not limited to:

(a) studying the effects of the proposed transmission arrangement,

(b) agreeing on the mitigation measures to be taken,

(c) negotiating the Costs to be borne by each Party for the necessary mitigation work,

(d) agreeing on additional contract provisions,

(e) obtaining the required permits and approvals,

(f) constructing the necessary facilities, and

(g) implementing the approved measures.

5.2.4 Mitigation of Adverse Impacts - The Notifying Party shall be responsible for mitigating the adverse effects identified by the Affected Party pursuant to this Section 5.2. The Parties shall meet and agree on recommended modifications to this Agreement (if any), necessary mitigation measures, the Costs to be borne by each Party, and the timetable for completing the required mitigation work. All mitigation measures and modifications shall be completed before the proposed transmission arrangement with the Third Party utility is effected, except in cases where the Parties agree on other procedures.

5.2.5 Consequences of Transmission Arrangements Without Prior Mitigation and Agreement - If the Notifying Party elects to proceed with a transmission arrangement with a Third Party utility other than in accordance with all of the provisions of this Section 5.2, the Notifying Party shall be responsible for all incremental adverse effects on the Affected Party's system, electric and other, resulting from the transmission arrangement with a Third Party utility including, but not limited to, payment for any services indirectly provided by the Affected Party and all costs incurred by the Affected Party that result from the detrimental electric flows or adverse effects analyzed and demonstrated by the Affected Party. The Affected Party may bill the Notifying Party pursuant to Section 8.3. Notwithstanding Section 8.4, the Notifying Party may either: (a) pay such bill in full, or (b) commence arbitration pursuant to Section 9.29.2.1, within twenty-five (25) days of receipt of the bill.

5.3 Scheduling Requirements - City shall provide PG&E with all schedules and scheduling data in accordance with the requirements and procedures provided in Appendix H.

5.4 Operation Records - At PG&E's request, City shall provide PG&E with operating records that may be necessary for the interconnected operation of the Parties' electric systems. Such records shall include, but are not be limited

to, the daily and hourly generation at City Plants, transmission line loadings, voltages, and reactive power.

5.5 Reporting Significant Events - City shall promptly report by telephone significant operating events to PG&E's Energy Control Center. For purposes of this Section 5.5 "significant operating events" shall include, but are not be limited to, (a) system and/or Generating Unit paralleling or separation, (b) scheduled and unscheduled shutdown of Generating Units, and (c) equipment clearances on transmission line switches, breakers, transformers or any other electrical equipment that may affect the Parties' electric systems.

5.6 Telemetering Data - City shall telemeter data to PG&E's Energy Control Center in accordance with the PG&E letter to the City, dated April 14, 1987 (which date is handwritten). At PG&E's request made in accordance with Good Utility Practice, City shall provide additional telemetering of data from City Plants or transmission facilities as agreed by the Parties.

5.7 Coordinated Maintenance - City shall coordinate its Scheduled Maintenance Outages with PG&E on or before November 1 of each Year for each City Plant for the subsequent Year. City shall use due diligence to complete each such Scheduled Maintenance Outage on schedule. A Scheduled Maintenance Outage may be rescheduled by agreement between the Parties. The Parties recognize that such rescheduling

should be requested at least thirty (30) days in advance of the date the particular Scheduled Maintenance Outage is scheduled to begin. Maintenance Power shall be scheduled in accordance with Section 5.3 and Appendix H.

5.8 Planning Data and Forecast - The Parties shall exchange planning data in accordance with the requirements and procedures provided in Appendix I.

5.9 Reactive Power Requirements and Power Factor Correction

5.9.1 City shall, at its own expense, provide, operate and maintain proper voltage control equipment on City Plants and Interconnections to produce or absorb reactive power to meet City's share of the Service Area load and transmission requirements under all loading conditions, including no-load. City shall, at all times, operate such facilities and devices in coordination with PG&E and in accordance with Good Utility Practice to provide reactive power support and voltage control to meet voltage schedules; provided, that City Plants shall not be required to operate in a manner substantially different from PG&E's resources electrically connected to the same portion of the Service Area. Voltage schedules and reactive power requirements, as applicable, shall be transmitted by PG&E to City under procedures agreed to by the Parties. If City, after notice from PG&E, fails to provide the necessary voltage control or reactive power support, or to follow voltage schedules, City

shall reimburse PG&E for all costs incurred by PG&E in meeting City's requirements under this Section 5.9.1.

5.9.2 City shall maintain its load power factors at levels comparable to the power factor levels maintained by PG&E in the same immediate geographical area; provided that, if City installs a new single load greater than 300 kW, City shall, at its own expense, provide power factor corrective equipment sufficient to maintain at least 0.85 power factor at that load if served at distribution level and 0.95 power factor is served at transmission level. New City loads shall meet requirements set forth in PG&E's then current Electric Rule No. 2 or successor on file with the CPUC. If City fails to meet the requirements provided in this Section 5.9.2, City shall reimburse PG&E for all costs incurred by PG&E in meeting City's requirements.

5.10 Load Shedding and Load Curtailments - The Parties recognize that Good Utility Practice requires that automatic load shedding by underfrequency relay be provided in the event the Service Area or interconnected system load and Spinning Reserve requirements exceed the level of generation instantaneously available to meet such requirements. Municipal, Airport Tenants and Assigned Customer loads are part of PG&E's existing customer load shedding plan. Such loads shall remain part of PG&E's customer load shedding plan. PG&E shall pay for, own, operate and maintain such automatic load shedding equipment.

5.11 Constrained Operations - If, after PG&E has reduced its fossil thermal generation to minimum operating levels consistent with Good Utility Practice, it is necessary to further reduce generation in the Control Area, PG&E may request City to reduce its generation from City Plants. City will do so if City is able to conserve the water otherwise used for such generation at the Hetch Hetchy Project.

PG&E shall not request any reduction in generation during the first year after the Effective Date of this Agreement, except as otherwise provided in this Agreement. During this initial one-year period, PG&E will assist City in executing agreements with Third Parties to sell Excess Energy to potential customers that meet Raker Act requirements.

After this one-year period, if City is unable to reduce excess generation and conserve water, City shall use its best efforts to sell such energy to these potential customers at the prevailing market price for Nonfirm Energy. If such transactions cannot be made, City shall sell to Assigned Customers at PG&E's hourly decremental cost as determined by PG&E's dispatch computer, except as otherwise provided in this Agreement.

6. HETCH HETCHY PROJECT DEPENDABLE CAPACITY

6.1 PDC Level - The Parties agree that, as of the Effective Date of this Agreement, the total PDC of the City

Plants shall be 260 MW at the City Plant bus, subject to subsequent redetermination or adjustment in accordance with the provisions of this Section 6, Appendix F and Appendix G. At a minimum therefore, City shall operate City Plants in accordance with the provisions of Appendix F.

6.2 Redetermination of PDC

6.2.1 Either Party may, by written request delivered to the other Party, initiate a redetermination of PDC of City Plants only upon the occurrence or anticipated occurrence of one or more of the events listed below. These events are:

(a) Additions, physical changes, or modifications that may result in a change in the generating or operating capability of City Plants.

(b) Changed water supply requirements of the Hetch Hetchy Project that may result in a change in the generating or operating capability of City Plants.

(c) Long-term changes of the Hetch Hetchy Project that may result in a change in the generating or operating capability of City Plants.

(d) Administrative, judicial or legislative actions that may result in a change in the generating or operating capability of City Plants.

City shall notify PG&E promptly of the occurrence of one or more of the events listed in this Section 6.2.1. However, the Parties may, by agreement, delay a request for

redetermination of PDC until the cumulative incremental effects of the event(s) is known or determinable.

6.2.2 The Parties shall attempt to agree on a redetermined PDC within six (6) months of the delivery of a request for redetermination pursuant to Section 6.2. Redetermination shall be based upon a long-term water and power study consistent with the methodology and modeling utilized in the initial determination of PDC. The water and power study shall use the appropriate assumptions from Appendix G and shall reflect only changes that resulted from the occurrence or anticipated occurrence of the event(s) cited in the request for redetermination and listed in Section 6.2.1. Any redetermination shall be limited to the cumulative incremental effect(s) of the event(s) upon which redetermination is based. If a critical water period other than 1976-77 has been established and applied in the determination of project dependable capacity of PG&E hydroelectric plants, this criterion shall be utilized in the redetermination of PDC.

6.2.3 If the Parties fail to agree pursuant to Section 6.2.2, on a redetermined level of PDC within six (6) months following the date on which a written request for redetermination is made, PG&E will redetermine PDC and shall notify City of the proposed redetermined PDC. If City agrees with PG&E's redetermination, such PDC shall become effective three (3) years from the date that the initial

written request for redetermination was delivered pursuant to Section 6.2.1, except as provided in Section 6.3.4. If City disagrees with PG&E's redetermination, it may submit that redetermination to arbitration pursuant to Section 9.29. The Parties agree to complete any necessary arbitration proceedings concerning the redetermination of PDC within three (3) years following the date on which the initial written request for redetermination was delivered. The PDC resulting from arbitration shall become effective pursuant to Section 6.2.5. If either Party chooses to appeal the arbitrator's decision pursuant to Section 9.29, that decision shall remain in effect pending a final decision on the appeal. If the PDC established by an appellate decision is different than that established by the arbitrator, that different PDC shall be deemed effective, on the date of the appellate decision or three (3) years after the written request for redetermination, whichever is later.

6.2.4 After PDC has been redetermined in accordance with this Section 6 and Appendix G, the Parties shall amend, as may be appropriate, Appendix B, Appendix F, Appendix G, this Section 6 and any other applicable sections of this Agreement so that those sections and appendices are consistent with the assumptions used to redetermine level of PDC. These amended sections and appendices shall become effective on the effective date of the redetermined level of PDC.

6.2.5 At all events, the redetermination of PDC, whether by agreement, by PG&E's redetermination, by arbitration, or by appeal shall become effective three (3) years following the date on which the initial written request for redetermination is delivered, except as provided in Section 6.2.3. During the three-year period between a request for redetermination and the effective date of the redetermined PDC, both the then-effective PDC and the operating criteria in Appendix F shall remain in effect.

6.3 Automatic Adjustment of PDC

6.3.1 If any unit of City Plants or any of City's transmission facilities are out of service or are operating at reduced levels for a period of three (3) months, PDC shall be reduced automatically at the end of that three-month period in accordance with Appendix B, except as provided in Sections 6.3.2 and 6.3.3.

6.3.2 If, prior to the end of the three-month period provided in Section 6.3.1, City demonstrates to PG&E's satisfaction that City is able to maintain a higher level of operational capacity than would result from an automatic adjustment pursuant to Section 6.3.1, such higher operational capacity shall remain in effect in lieu of an automatic adjustment for three (3) additional months beyond the period provided in Section 6.3.1, or such longer period as is agreed to by the Parties. The Parties do not intend to make frequent or small changes in PDC. City's

demonstration of remaining capability pursuant to this Section 6.3.2 shall be consistent with the operating criteria in Appendix F and shall be based on the remaining machine capability of City's Generating Units, reservoir levels, known hydrological conditions and historical operational performance of the remaining City Plants. If City fails during this second three-month period to maintain or demonstrate operational capacity higher than would result from an automatic adjustment pursuant to Section 6.3.1, PDC shall be adjusted immediately in accordance with Appendix B. Nothing in this Section 6.3.2 shall entitle City to a PDC higher than that which was in effect prior to the three-month period described in Section 6.3.1.

6.3.3 Upon restoration to service of the affected City Plant or transmission facilities which caused an automatic adjustment, PDC will be readjusted to a level consistent with such restoration. If, within three (3) months after a restoration of the level of PDC, City Plants or City's transmission facilities are again out of service or operating at reduced levels due to the same occurrence or event related to equipment failures that led to the initial automatic adjustment of PDC, PDC shall be reduced immediately to the pre-restoration level. If, after a restoration of the level of PDC, City Plants or City's transmission facilities are again out of service or operating at reduced levels due to the same occurrence or

event not related to equipment failures that led to the initial automatic adjustment of PDC, PDC shall be reduced immediately to the pre-restoration level.

6.3.4 If either Party believes, based upon facts then known, that any Generating Unit or City's transmission facilities will be out of service for a period longer than three (3) years from the date of notice of the full or partial outage described in Section 6.3.1, such Party may initiate redetermination pursuant to Section 6.2 and Appendix G. The redetermined PDC, pursuant to this Section 6.3.4, shall become effective on the first day of the month following agreement of the Parties. In the event that City Plants or City's transmission facilities that caused a redetermination pursuant to this Section 6.3.4 are restored, PDC shall be automatically readjusted to a level of PDC consistent with the extent of such restoration.

6.4 Arbitration Regarding PDC

6.4.1 Either Party may request binding arbitration of the redetermined or automatically adjusted level of PDC resulting from the procedures provided under Section 6.2 and Section 6.3, respectively. City shall notify Turlock, Modesto and PG&E of the invocation of such arbitration. Both Turlock and Modesto may participate in such arbitration. The arbitration of the PDC level shall be conducted in accordance with the procedures set forth in Section 9.29.2, except that Section 9.29.2.10 shall not

apply. The PDC level resulting from such arbitration shall be the PDC level used under this Agreement.

6.4.2 A failure by either Party or Modesto or Turlock to participate in the arbitration shall constitute a waiver of that Party's or Modesto's or Turlock's rights to contest the redetermination or automatic adjustment level of PDC.

7 ASSIGNED CUSTOMERS AND DEFERRED DELIVERY ACCOUNT

7.1 Assigned Customers - PG&E has assigned to City certain Assigned Customers as an accommodation, subject to the conditions provided in this Section 7. This assignment of specific customers is intended only to assist City in utilizing all of the energy generated by City Plants in a manner consistent with the provisions of the Raker Act.

7.1.1 Before selling any energy to Assigned Customers, City shall use energy generated by City Plants in accordance with the provisions of Sections 2.7.1, 2.7.2 and 5.11.

7.1.2 PG&E shall deliver any remaining Excess Energy from Interconnections to the Assigned Customers in accordance with Good Utility Practice and Sections 2.7.2 and 5.11 and adjusted for losses pursuant to Section 3.2. PG&E shall give City advance notice of any planned curtailment of such delivery.

7.1.3 The Parties shall, if necessary, enter into new or amended contracts with the Assigned Customers that

reflect the billing arrangements provided in Section 7.1.5. Unless otherwise agreed by the Parties, such contracts will become effective on the Effective Date of this Agreement.

7.1.4 PG&E shall deliver City's Excess Energy to Assigned Customers in the order of priority established by the Parties. PG&E may change this order of priority if it assigns new or additional customers to City.

7.1.5 City shall collect the Energy Cost Adjustment Clause (ECAC), or the equivalent fuel cost component(s) as agreed by the Parties, of PG&E's retail power rate schedule on file with the CPUC that is applicable to the Assigned Customers at the time the Excess Energy is delivered to the Assigned Customers, except as provided in Section 5.11. PG&E shall collect the remaining charges of PG&E's applicable retail power rate schedule.

7.2 Deferred Delivery Account - If, after disposing of Excess Energy pursuant to Section 2.7.2, City has Excess Energy which has not been disposed of, such remaining Excess Energy shall be deposited into the Deferred Delivery Account in the manner described in Sections 7.2.1 and 7.2.2. Deposits into the Deferred Delivery Account are expected to be kept to a minimum.

7.2.1 The Deferred Delivery Account shall be comprised of three separate sub-accounts that segregate City's Excess Energy by Time Periods reflecting the period during which such energy was deposited into the Deferred

Delivery Account. Excess Energy that is surplus to Assigned Customer deliveries will be deposited into the appropriate sub-account corresponding to the Time Period in which that energy was generated, in accordance with Appendix J.

7.2.2 Withdrawals shall be made from the sub-accounts to displace PG&E's own energy sales to Assigned Customers during the like Time Period represented by the sub-account deposit. Withdrawals can only be used for sales to Assigned Customers and energy withdrawn by City in accordance with Section 7 will be given priority over PG&E's energy in making sales to Assigned Customers.

7.2.3 No negative balances will be allowed in the Deferred Delivery Account. Any deposits remaining in the existing deferred delivery account as of Effective Date of the Agreement, will be deposited into the partial-peak period sub-account.

8 ACCOUNTING, METERING, BILLING AND PAYMENT

8.1 Accounting

8.1.1 General Parameters - All accounting of City's deliveries to the Districts will be based on City's final schedule in accordance with Section 5.3 and Appendix H. All accounting of City's generation from City Plants and deliveries to Municipal Load, Airport Tenants and Riverbank will be based on City's final schedule in accordance with Section 5.3 and Appendix H and the actual,

half-hourly recorded demands and metered energy determined at the end of each month.

8.1.2 Retail Power - For each half-hour, energy sold pursuant to the Retail Power rate schedule shall be actual Municipal Load less the generation of City Plants, but not less than zero, adjusted for losses. For each Billing Period, Retail Power energy shall equal the sum of all half-hourly amounts in the Billing Period as determined immediately above. Retail Power demand shall be the maximum half-hour demand for Retail Power for each Billing Period.

8.1.3 Municipal Deviation Account - PG&E shall establish the Municipal Deviation Account for differences between actual Municipal Load and scheduled Municipal Load. Such differences shall be Municipal Deviation Energy. Half-hourly Municipal Deviation Energy is expected to be kept to a minimum and ideally zero. The Parties recognize, however, that due to City's numerous Municipal Load delivery points, Municipal Load cannot be estimated with absolute certainty for scheduling purposes. The Parties agree that, to the extent necessary, City shall use its best efforts, including telemetering City loads, to keep half-hourly Municipal Deviation Energy to a minimum. Municipal Deviation Energy shall be accounted by Time Periods, and netted by such Time Periods. A monthly statement will be prepared showing the resulting net deficiency or net surplus in each Time Period for the current Billing Period.

Municipal Deviation Energy surpluses or deficiencies shall be corrected on City's schedules to PG&E during like Time Periods in the next Billing Period, pursuant to Appendix H.

8.1.4 City Accounting - The accounting of PG&E's sales and services for City shall be as provided in Appendix J.

8.1.5 Assigned Customer Sales - If the accounting done pursuant to Section 1.1(b) of Appendix J results in a surplus for any one or more of the Time Periods, such surplus shall be deemed to have been sold to the Assigned Customers or deposited into the Deferred Delivery Account in such Time Periods except as provided in Section 8.1.6.

8.1.6 Scheduling Restrictions - City shall not schedule Supplemental Power, Maintenance Power or Emergency Power from PG&E for the purpose of either: (a) increasing City's sales to Assigned Customers, or (b) shifting such sales from any Time Period or Billing Period to another Time Period or Billing Period. City shall schedule to Assigned Customers only Excess Energy in accordance with Sections 2.7.2 and 7.1 and only as such energy is actually generated by City Plants. City shall not purchase Supplemental Power, Maintenance Power or Emergency Power to create future Assigned Customer sales. Supplemental Power will not be sold to City in order to support scheduled Excess Energy deliveries by City. If PG&E determines, that City has scheduled Supplemental Power, Maintenance Power, Emergency Power, or Power from Third Parties to increase City's sales

to Assigned Customers, all such Power shall be deemed delivered and lost to the PG&E system, whether or not such schedules are identified at the time they were made. If City disagrees with PG&E's determination, PG&E will place the energy subject to dispute in a balancing account. If City demonstrates that the disputed energy was generated without the use of Supplemental Power, Maintenance Power, Emergency Power, or Power from Third Parties, that energy shall be considered Assigned Customer sales. PG&E reserves the right to modify the Assigned Customer arrangements in Section 7, if City does not conform to Sections 2.7.2, 2.7.3, 5.11 and this Section 8.1.6.

8.1.7 Supplemental Power Purchases - If the accounting done pursuant to Section 1.1(b) of Appendix J results in a deficiency for any half-hour, such deficiency shall be deemed Supplemental Power energy purchases. Supplemental Power demand shall be determined pursuant to Section 2.1 of Appendix J.

8.2 Metering

8.2.1 The Parties shall furnish, maintain, test and inspect electric metering equipment at Interconnections and other interconnections as agreed by the Parties. PG&E shall read all meters relative to these interconnections on the first Work Day of each month and/or at such other times as agreed by the Parties. Meters will be kept under joint seals of the Parties, and such seals shall not be broken

except in the presence of authorized representatives of both Parties; provided, that neither Party shall unreasonably refuse to be present. The meters at the Newark and Warnerville Substations and other points as agreed upon by the Parties will be tested periodically, at intervals of no less than twelve (12) months unless otherwise agreed by the Parties. All other meters provided by PG&E for the delivery of City's Power will be tested in accordance with PG&E's then current Electric Rule No. 17 or successor on file with the CPUC, unless otherwise agreed by the Parties.

8.2.2 Either Party shall have the right, at any time, to request an interim inspection or test of meters and to make any adjustment of the meters as may be necessary in the presence of an authorized representative of the other Party; provided, that neither Party shall unreasonably refuse to be present. When an interim inspection or test is desired, sufficient notice shall be given by the Party proposing the test to permit the other Party to have its authorized representative present.

8.2.3 The registration of the meters shall be used as the basis for determining the amount of capacity and energy delivered pursuant to this Agreement unless otherwise agreed herein, unless the meters are found to register inaccurately when tested. If the actual inaccuracy is greater than two (2) percent and the actual inaccuracy can be determined, the readings of such meters shall be

corrected, and the corrected readings shall be used as the basis for determining the amount of capacity and energy actually delivered. When the inaccuracy cannot be determined, the amount of Power delivered during the period of inaccurate readings will be estimated and agreed to by the Parties using all available and pertinent data.

8.3 Billing and Payment

8.3.1 PG&E shall prepare and submit detailed bills to City on or after the last day of each Billing Period for services provided or other obligations under this Agreement during that Billing Period. Full payment, except as expressly provided in this Section 8.3.4, of bills shall be due upon delivery and must be received by PG&E no later than twenty-five (25) calendar days following the day on which the City receives the bill or, if that twenty-fifth (25th) day is not a Work Day, then the next Work Day.

8.3.2 If charges cannot be determined accurately for preparing a bill under this Agreement, PG&E may use its best estimates in preparing the bill, and the estimated bill shall be paid by City. When final and complete billing information becomes available and charges can be determined accurately, PG&E shall promptly prepare and submit an adjusted bill to City, and any additional payment or refund shall be made within twenty-five (25) calendar days.

8.3.3 Any amount due under this Agreement that is not paid on time pursuant to Section 8.3.1 shall accrue

interest from the date payment is due until the date payment is received. The interest rate applicable to any payment or refund due during a given Billing Period shall be the rate for refunds calculated pursuant to 18 C.F.R. Section 35.19a of the FERC Regulations, as that section may be amended or superseded from time to time. The monthly interest rate shall be prorated by days from the date payment is due until the date payment is received. Interest shall be added to the principal due under the bills; provided, that nothing in this Section 8.3.3 shall be construed to compel either Party to violate any applicable usury laws.

8.3.4 In any Billing Period that the demand component of PG&E's bill to City for Supplemental Power under Rate Schedule A (Supplemental Power A-2) exceeds $100,000.00, City may at its option amortize such demand component by making minimum monthly payments for such demand component in the amount of $100,000.00. Such payment shall be continued until the balance due PG&E for such demand component for the Billing Period, and any subsequent Billing Periods in which City elects to make minimum $100,000.00 payments in lieu of payment in full of the balance due for such demand component, has been paid in full. Balances due PG&E pursunt to this Section 8.3.4 shall accrue interest pursuant to Section 8.3.3.

8.4 Billing Disputes - All payments shall be made in full without offset or reduction regardless of the existence

of any disputes. A dispute between either PG&E or City and any Third Party shall not be a proper basis for contesting a billing under this Agreement. Nonpayment of all or any part of a disputed bill shall be deemed a breach of this Agreement and shall be grounds for termination of this Agreement pursuant to Section 9.26.2.

8.4.1 If any portion of a bill is disputed, the Party billed shall pay the bill in full and notify the billing Party in writing, within the twenty-five (25) day payment period, of the amount in dispute and the specific basis for the dispute. The Parties shall meet within fifteen (15) calendar days of the billing Party's receipt of the complaining Party's notice or, by mutual agreement of the Parties, on the earliest possible date thereafter, to attempt to agree on any adjustments to the bill that may be appropriate. If the Parties cannot agree within this fifteen (15) day period (as it may be extended by mutual agreement), the dispute shall be resolved pursuant to the procedures set forth in Section 9.29.

8.4.2 If a bill contains any error that was not discovered within the twenty-five (25) day payment period specified in Sections 8.3.1 and 8.3.3, the Party discovering the error, shall, within thirty (30) days of discovery, notify the other Party of the error and provide all details regarding the nature and extent of the error. Disputes concerning billing errors discovered after the payment

period shall be resolved as provided in Section 8.4.1. In any event, unless the other Party has been notified of the error within two (2) years from the date payment is due, the bill shall be deemed correct.

8.4.3 If the Parties or an arbitrator determines that all or part of a disputed amount was not due and payable, that amount shall be refunded with interest, as provided in Section 8.3.3, for the period from the date the payment was made to the date the refund is made.

9 GENERAL PROVISIONS

9.1 Accounting Procedures - PG&E shall record its Costs and maintain its accounting records in accordance with the Uniform System of Accounts for public utilities and licensees subject to the provisions of the Federal Power Act, as prescribed and modified from time to time by FERC and, to the extent not inconsistent, as supplemented by PG&E's then current regular accounting practices.

9.2 Advancing Costs

9.2.1 Unless otherwise agreed by the Parties, City shall pay PG&E the Costs of constructing or reinforcing facilities or performing studies and designing facilities and reinforcements, as agreed by Parties, as an advance payment in accordance with Section 3.

9.2.2 For all advance payments under this Section 9.2, PG&E shall determine and provide City:

(a) an estimate of all Costs, broken down by major activities, which it expects to incur; and

(b) a schedule indicating the approximate dates when PG&E expects to pay such Costs for each major activity included in the estimate. PG&E shall provide this estimate and schedule at least sixty (60) days before PG&E is scheduled to make its first payment.

9.2.3 PG&E may revise the estimate and schedule of Costs and payments provided under this Section 9.2 from time to time as it determines appropriate.

9.2.4 City shall pay each amount specified in the schedule described above in Section 9.2.2, or, as the schedule may have been revised, for each major activity as agreed by the Parties; provided, that PG&E shall not be required to pay each such amount prior to receipt of payment by City for each amount.

9.2.5 PG&E shall provide City a final accounting of the Cost of constructing or reinforcing facilities within a reasonable time after the completion of such work. City shall make an additional payment to PG&E, or PG&E shall make a refund to City, as appropriate, in order to adjust for any difference between the estimated and actual Costs of such construction or reinforcements. All adjustments shall include an interest component, calculated in accordance with Section 8.3.3, from either (a) the due dates of the estimated billings being adjusted, in the case of an

additional payment, or (b) the dates payments were received by PG&E, in the case of a refund, to the dates the refunds or additional payments are paid. City shall have audit rights as provided in Section 9.5.

9.2.6 If City advances PG&E funds to construct or reinforce PG&E's transmission facilities to meet City's transmission requirements, PG&E may use, for its own purposes or to provide transmission service to Third Parties, any transmission capacity made available by such construction or reinforcement beyond that required to serve City under this Agreement. If PG&E uses such transmission capacity for itself or to serve Third Parties, PG&E will compensate City for such use in a manner to be agreed upon by the Parties prior to such use.

9.3 Appendices Incorporated - The following documents, as they may be revised from time to time, are attached to this Agreement as appendices and are incorporated in this Agreement by reference:

Appendix A - Rate Schedules and Adjustments

Appendix B - Capacity Ratings

Appendix C - City Capacity Reserve Requirements

Appendix D - Transmission and Distribution Service and Loss Factors

Appendix E - City Facilities and Interconnections

Appendix F - Operating Criteria

Appendix G - Redetermination of PDC

Appendix H - Scheduling

Appendix I - Planning Data and Forecast

Appendix J - Accounting

9.4. Assignment

9.4.1 No transfer or assignment of all or any part of this Agreement or any rights, benefits or duties under it by either Party shall be effective without the prior written consent of the other Party; provided, that this Section 9.4.1 shall not apply to interests which arise by reason of any deeds of trust, mortgages, indentures or security agreements heretofore granted or executed by a Party.

9.4.2 Any successor to or transferee or assignee of the rights of a Party, whether by voluntary transfer, judicial sale, foreclosure sale, or otherwise, shall be subject to all terms and conditions of this Agreement to the same extent as though such successor, transferee or assignee were an original Party.

9.4.3 The transferor or assignor of all or any part of this Agreement or any right or benefit under it shall continue to be obligated by the terms and conditions of this Agreement in the event its successor, transferee or assignee fails to perform as required by this Agreement.

9.5 Audit Rights - City or its agents shall have the right to audit PG&E's supporting documents upon which PG&E bases its bills and Costs to City for a period up to two (2)

years after the later of receipt of the final accounting or receipt of the final bill for such Costs.

9.6 Cancellation Charges

9.6.1 In the event that all or any portion of any facilities reinforced or constructed by PG&E for the purpose of providing City service under this Agreement, including but not limited to communication and control facilities and any facilities used to provide transmission and distribution service to City, become idle because of termination of this Agreement by City prior to July 1, 2015, or because of City's request for reduction of service, City shall pay cancellation charges to PG&E. PG&E shall determine the amount of these cancellation charges, taking into account the following items as appropriate: (a) the undepreciated portion of Costs, other than those Costs that were paid by City pursuant to Section 9.2, incurred by PG&E in the reinforcement or construction of such facilities or portion thereof to the extent they are not needed to serve other customers of PG&E, (b) the removal Cost less the salvage value of any of such facilities which are proposed to be removed, (c) until July 1, 2015, the actual Cost of PG&E owning any of the facilities which PG&E proposes to retain in place, reduced to reflect any revenues PG&E will receive until that date from other customers using such facilities (City's liability would, at most, be the unused portion of such facilities), and (d) any other relevant considerations,

as agreed by the Parties. For purposes of this determination, depreciation shall be calculated in accordance with PG&E's standard accounting practices.

9.6.2 PG&E shall bill City for cancellation charges after the effective date of termination of this Agreement by City or after the effective date of reduction in maximum rates of service, as applicable. City shall pay such bills in accordance with Section 8.3 notwithstanding termination of this Agreement by either Party, unless otherwise agreed by the Parties.

9.6.3 If, after payment of the cancellation charges, but not later than July 1, 2015, a portion of those transmission or distribution facilities referred to in this Section 9.6 is retained in place and later used by PG&E to serve other customers, PG&E shall determine and apply a just and reasonable adjustment to the calculation of the cancellation charges and pay City an appropriate refund.

9.6.4 The arbitration provisions of Section 9.29, shall continue to apply to the cancellation charges levied pursuant to this Section 9.6 in the event that this Agreement is terminated.

9.7 Captions - All indexes, titles, subject headings, section titles and similar items are provided for the purpose of reference and convenience and are not intended to affect the meaning of the contents or scope of this Agreement.

9.8 Construction of Agreement - Ambiguities or uncertainties in the wording of this Agreement shall not be construed for or against either Party, but shall be construed in a manner that most accurately reflects the intent of the Parties when this Agreement was executed.

9.9 Continuity of Service

9.9.1 Interruptions. PG&E may temporarily interrupt or reduce any service, or separate all or a part of the facilities of its electric system from all or a part of the electric system of City, or the electric system that directly or indirectly serves City, if PG&E determines that any of the following conditions exists or that the described action is necessary or desirable in accordance with Good Utility Practice: (a) in case of an Emergency, (b) to prevent a hazard to life or property or unsatisfactory service to its retail customers or its retail customers' loads resulting from abnormal operating conditions, including excessive Loop Flow, existing within PG&E's electric system or within the electric systems of City or Third Parties to which PG&E's system is interconnected, (c) the operation of PG&E's electric system is suspended, interrupted or interfered with as a result of an Uncontrollable Force, or (d) for scheduled maintenance outages.

9.9.2 Notice of Interruptions - Except in Emergencies or on the occurrence of an Uncontrollable Force,

PG&E shall endeavor to give advance notice of any interruption, reduction or separation, and its probable duration. Such interruptions include, but are not limited to, interruptions to install equipment on, make repairs or replacements to, make investigations and inspections of, or perform maintenance or other work on PG&E's electric system.

9.9.3 Protective Devices - PG&E utilizes automatic protective devices in order to assist in maintaining the integrity and reliability of its electric system and to protect its customers from damage, injury or prolonged outages. Service under this Agreement is subject to interruption in the event of operation of such devices.

9.9.4 Jeopardy - If at any time PG&E determines, consistent with Good Utility Practice, that continuity of electric service within the PG&E Control Area is being jeopardized, it may curtail any service being made available by it to the extent it determines is necessary to eliminate or avoid such jeopardy.

9.10 Control And Ownership Of Facilities - The electric system of a Party shall at all times be and remain in the exclusive ownership, possession and control of that Party, and nothing in this Agreement shall be construed to give the other Party any right of ownership, possession or control of that system.

9.11 Cooperation and Right of Access and Inspection

9.11.1 It is the intent of the Parties that this Agreement will operate to their mutual benefit and to maintain the reliability of their respective electric systems.

9.11.2 City's operation of the Hetch Hetchy Project is in part governed by the Raker Act. The Parties recognize the limitations and prescriptions of the Raker Act and, insofar as is reasonably possible within the terms and conditions of this Agreement, including the balance of benefits and burdens agreed to by the Parties and incorporated herein, intend to conduct themselves accordingly concerning the operation and effect of this Agreement.

9.11.3 The Parties shall use their best efforts to maintain the reliability of their respective electric systems, and to keep their charges to their customers as low as possible.

9.11.4 Unless otherwise expressly stated, Good Utility Practice shall be the standard for performance by the Parties under this Agreement. The Parties also shall, to the extent reasonable, applicable and consistent with Good Utility Practice, observe the principles set out in North American Electric Reliability Council and WSCC operating criteria.

9.11.5 Each Party hereby gives all necessary permission to the other Party to enable the Parties to carry

out this Agreement where necessary and consistent with the rights, duties and responsibilities of the Parties under this Agreement. Each Party shall have the right to have its agents, employees or representatives, if accompanied by the agents, employees or representatives of the other Party, enter such Party's premises, at all reasonable times and in accordance with reasonable rules and regulations which shall be mutually agreed to and established by the Parties, for the purpose of inspecting the property, equipment, design drawings and documents constituting operating procedures of the Parties.

9.11.6 PG&E also shall have the right, if accompanied by the agents, employees or representatives of the City, to enter City Plants or any City substation (a) at reasonable times for inspection of City's generator operations logs and control, protective and safety devices, and (b) to disconnect such City Plants or substations from PG&E's system if, in PG&E's opinion, a hazardous condition exists and such immediate action is necessary to protect persons, PG&E's facilities, or other customers' facilities from damage or interference caused by those City Plants or City substations.

9.12 Effect on Other Contracts - The Parties intend and agree that this Agreement shall, on its Effective Date, terminate and supersede the 1945 Agreement, as amended, and all rights and obligations and all rate schedules filed with

FERC thereunder, except as provided in this Section 9.12. The Parties further intend and agree that this Agreement shall, on its Effective Date, supersede and terminate all rights and obligations between the Parties under the "Agreement among Modesto Irrigation District, Turlock Irrigation District, the City and County of San Francisco and Pacific Gas and Electric Company, dated June 10, 1985 (Interim Agreement), except as provided in this Section 9.12. However, any right to payment of money for transactions occurring prior to such termination and supersession, or monies owed or to be refunded in accordance with the provisions of the 1945 Agreement, as amended, and the Interim Agreement, shall continue. Such amounts include, but are not limited to, final adjustments of the fuel cost adjustment account, final accounting of costs associated with Diablo Canyon Units 1 and 2, and CPUC and FERC decisions affecting rates thereunder.

9.13 Filing Fees - City shall reimburse PG&E for one-half of the FERC filing fees incurred by PG&E in filing this Agreement and making any subsequent changes to it or to any tariffs or rate schedules resulting from it; provided, that PG&E shall not make such charges unless PG&E obtains similar agreement for reimbursement from all of its resale customers. Such charges, if any, shall be included in a separate bill submitted to City which shall include supporting documentation.

9.14 Governing Law - This Agreement shall be interpreted, governed by, and construed under the laws of the State of California or the laws of the United States, as applicable, as if executed and to be performed wholly within the State of California.

9.15 Authority - Each Party hereby warrants that the person executing this Agreement on its behalf has the authority to sign and, by signing, to bind that Party to the terms and conditions of this Agreement. The Parties agree that failure by either Party to meet its obligation under this Section 9.15 shall constitute a material breach of this Agreement and shall be sufficient ground for invoking the termination provision of Section 9.26.2.

9.16 Judgments and Determinations - When the terms of this Agreement provide that an action may or must be taken or that the existence of a condition may be established based on a judgment or determination of a Party, such judgment shall be exercised and such determination shall be made in good faith, and, where applicable, in accordance with Good Utility Practice, and shall not be arbitrary or capricious.

9.17 Liability

9.17.1 Rights of Third Parties - Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability or obligation, contractual or otherwise, to any Third Party.

9.17.2 Between Parties

9.17.2.1 Except for its willful misconduct or with respect to nonpayment of money due, neither Party, nor its directors or members of its governing board, officers, employees or agents shall be liable to the other Party for any loss, damage, claim, cost, charge or expense arising from performance or nonperformance under this Agreement.

9.17.2.2 Each Party shall be responsible for protecting its facilities from possible damage by reason of electrical disturbances or faults caused by the operation, faulty operation, or nonoperation of the other Party's facilities, and such other Party shall not be liable for any such damages so caused.

9.17.3 For Interruptions - PG&E shall not be liable to City, and City hereby releases PG&E and its directors, officers, employees and agents from any claim, demand, liability, loss or damage, whether direct, indirect or consequential, incurred by City, which results from the interruption or curtailment of electric service made available by PG&E under this Agreement.

9.18 License To Install Facilities - Either Party ("Licensing Party"), upon request by the other Party ("Installing Party") and to the extent that its rights permit, shall give to the Installing Party a license or licenses to construct, install, operate, maintain, inspect,

test, read, check, replace and repair, upon the property of the Licensing Party, such facilities as are necessary for the performance of its obligation under this Agreement or for performing any other work incident to rendering the services provided under this Agreement. A license or licenses so given shall be in form and of legal sufficiency mutually acceptable to the Parties, and either (a) shall be and remain in effect during the term of this Agreement and shall expire coincident therewith, or (b) shall be for such lesser period as may be appropriate. Any facilities installed or constructed by the Installing Party pursuant to such license or licenses shall be and remain the property of the Installing Party notwithstanding that they may have been affixed to the premises. The Installing Party shall have a reasonable time after the expiration of such license or licenses in which to remove the facilities so installed or constructed.

9.19 <u>No Dedication of Facilities or Agreement to Serve Others</u>

9.19.1. Any undertaking by one Party to the other Party under any provision of this Agreement shall not constitute the dedication of the electric system or any portion thereof by the undertaking Party to the public or to the other Party or to any Third Party, and it is understood and agreed that any such undertaking under any provisions of or resulting from this Agreement by a Party shall cease upon

the termination of such Party's obligations under this Agreement.

9.19.2 PG&E, by entering into this Agreement, does not hold itself out to furnish like or similar service to any Third Party.

9.20 Notices

9.20.1 Formal Notices - Any notice, request, demand, information, report or item otherwise required, authorized or provided for in this Agreement shall be given in writing, except as otherwise provided pursuant to Section 9.20.2., and shall be deemed properly given if delivered personally or sent by United States Mail, postage prepaid, to the persons specified below:

1) PG&E:
Vice President
Golden Gate Region
1170 Market Street
San Francisco, California 94102

2) City:
General Manager of Hetch Hetchy Water and Power
City and County of San Francisco
1155 Market Street
San Francisco, California 94103

9.20.2 Routine Notices - Any notice of a routine character in connection with service under this Agreement or in connection with the operation of facilities shall be given in such a manner as the Parties may determine from time to time, unless otherwise provided in this Agreement.

9.20.3 Change of Notice Recipient - Either Party may change designation of the person who is to receive notices on its behalf by giving the other Party notice thereof in the manner provided in Section 9.20.1.

9.21. Paralleling Facilities

9.21.1 New Facilities - City shall not operate a new City generating facility or plant in parallel with PG&E's system until PG&E determines in good faith that such operation is safe and constructed and operated in accordance with Good Utility Practice, and notifies City in writing to that effect.

9.21.2 Existing Facilities - The operators of the Parties shall adopt operating procedures for reparalleling of a City generating facility or plant with PG&E's system in the event a separation occurs. If the operators cannot agree on such procedures, PG&E may adopt such rules governing reparalleling as it determines are appropriate, and City shall operate its Generating Units or City Plants in accordance with such rules.

9.22 Proprietary and Confidential Information

9.22.1 Except as provided in Section 9.22.5, nothing in this Agreement shall require either Party to make its proprietary or confidential information available to the other Party or to a Third Party.

9.22.2 Either Party shall notify the other Party when information requested by the other Party is considered proprietary or confidential.

9.22.3 To the extent either Party releases such proprietary or confidential information to the other Party in any form, the other Party shall agree, to the extent permitted by law, (a) to treat such information as confidential, (b) not to disclose any such information it receives to any Third Party, and (c) not to use such information for any purpose other than the enforcement and performance of this Agreement, subject to any protective order.

9.22.4 The Parties shall only disclose proprietary information to their consultants subject to the provisions of this Section 9.22.

9.22.5 Except as agreed by the Parties, each Party, its personnel and consultants shall have the right to examine, in the other Party's offices, documents that contain the other Party's proprietary information and were produced to satisfy an information request. Each Party shall have the right, at its own expense, to obtain or make copies of such documents subject to any restrictions of any applicable protective order or separate agreement between the Parties and subject also to the provisions of Section 9.22.3.

9.23 Negotiated Settlement

9.23.1 The discussions which have produced this Agreement have been conducted on the explicit understanding, pursuant to Rule 602 of FERC's Rules of Practice and Procedure, that all such discussions, including but not limited to offers of settlement and discussions relating thereto, are and shall be privileged, shall be without prejudice to the position of any Party or participant presenting any such offer or participating in any such discussion, and are not to be used in any manner in any proceeding or otherwise, except as may be necessary to enforce this Agreement.

9.23.2 None of the principles or the methodology underlying Appendix A of this Agreement shall be deemed by FERC, the CPUC or any other regulatory body, or by any court, as being a binding precedent in any future rate proceeding except as specifically contemplated by Appendix A.

9.24 Regulatory Authority

9.24.1 To the extent applicable and necessary, this Agreement is made subject to the jurisdiction of those regulatory authorities having jurisdiction over the Parties and this Agreement.

9.24.2 The Parties shall take all reasonable action necessary to secure the approval by FERC of this Agreement in its entirety and without change. When PG&E submits this Agreement to FERC for acceptance, City shall, without reservation, condition or qualification, by separate

letter to FERC fully support the Agreement and its acceptance by FERC and shall state City's concurrence with the termination procedures provided in Section 9.26.

9.24.3 The Parties shall make every reasonable effort to support, defend and protect this Agreement before the FERC, CPUC or other regulatory authority or any judicial, administrative or legislative body which has as an issue before it this Agreement or its operation or effect.

9.25 Operating Rules and Procedures - The Parties shall agree upon and put into effect, from time to time, such rules and procedures as may be required in order to establish the methods of operation to be followed in the performance of this Agreement.

9.26 Effective Date and Term

9.26.1 Effective Date - This Agreement shall become effective April 1, 1988, or on such other date as the Parties may agree or as may be designated as the Effective Date by FERC; provided, that this Agreement is expressly conditioned upon FERC's acceptance of all provisions hereof, without change or condition, including all rates and charges for sales and services as set forth in Appendix A, and shall not become effective in the event of a change or condition without the express acceptance of such change or condition by the Parties and by FERC; provided further, that if upon filing FERC enters into a hearing to determine whether this Agreement is just and reasonable, this Agreement shall not

become effective until the date when an order, no longer subject to judicial review, is issued by FERC determining this Agreement to be just and reasonable without changes or new conditions unacceptable to either Party. For the period from January 1, 1988 through March 31, 1988, all applicable provisions of the current contractual relationship between the Parties, including rate schedules currently on file with FERC, shall remain in full force and effect.

9.26.2 Termination

9.26.2.1 This Agreement shall terminate as of July 1, 2015, unless terminated by either Party pursuant to Section 8.4, 9.15, 9.29 or 9.31. The Parties agree not to oppose termination of this Agreement pursuant to this Section 9.26.2. Such termination shall also automatically terminate any tariffs or Rate Schedules which in whole or in part result from or incorporate this Agreement. After termination pursuant to this Section 9.26.2, all rights to services provided under this Agreement or any such tariff or Rate Schedule which results from or incorporates this Agreement shall cease, and no Party shall claim or assert any continuing right to such services under this Agreement. In no event shall PG&E be required to continue to provide services based in whole or in part on the existence of this Agreement or on the provision of services under this Agreement beyond the termination date. However, any right to payment of money for transactions occurring prior to the

termination shall continue, and the provisions of Section 8.3 shall continue to apply to such payments of money.

9.26.2.2 Should FERC require a regulatory filing to effectuate termination under this Section 9.26.2, despite the Parties' express agreement herein that no such regulatory filings are necessary, termination shall not be denied, conditioned, suspended or otherwise deferred for more than five (5) months after the termination date specified in the notice of termination. City hereby recognizes PG&E's right pursuant to this Section 9.26 to terminate this Agreement and all related Rate Schedules filed with FERC and shall not oppose, directly or indirectly, the exercise of such right. The Parties also agree that the terminating Party may commence regulatory filing concurrently with notice of termination to the other Party pursuant to Section 9.26.2.1. The Parties hereby agree that in no event shall PG&E be required to continue to provide services based in whole or in part on the existence of this Agreement beyond such five-month suspension period, should FERC deny, condition, suspend or defer PG&E's notice of termination.

9.26.2.3 If at any time the FERC, CPUC or any other regulatory body or agency or any court of competent jurisdiction or legislative body other than the Board of Supervisors of City, makes a finding, determination, order or decree, or enactment or law

(collectively "decision") that (i) all or part of this Agreement or its operation or effect is unjust, unreasonable, unlawful, unduly discriminatory, imprudent or otherwise not in the public interest, or (ii) this Agreement should be interpreted, modified or extended in such a manner that either or both Parties may be required to extend their obligations hereunder to Third Parties or to incur new or different obligations hereunder to Third Parties not contemplated by them in entering into this Agreement, or (iii) would otherwise significantly impact the basic terms and conditions of this Agreement, which decision precludes either Party from substantially realizing the negotiated benefits of this Agreement, then either Party shall be entitled to relief from the effects of that decision as provided below in this Section 9.26.2.3.

(a) To the extent appropriate and lawful, the Parties shall, at the time that decision is not stayed and is no longer subject to judicial review, be relieved of their obligations to the extent necessary to reestablish the original balance of benefits and burdens upset by that decision.

(b) The Parties shall renegotiate the terms and conditions of this Agreement within the terms of the decision so as to restore the services and original balance of benefits and burdens contemplated by the Parties as of the date this Agreement is executed.

(c) In the event this Agreement cannot be renegotiated after good faith efforts as contemplated in paragraph (b) of this Section 9.26.2.3 within one (1) year after that decision, then either Party may at any time after the one-year period give the other Party written notice of termination of this Agreement and, notwithstanding Section 9.26.2.1, such termination shall be effective two (2) years after receipt of the notice by the other Party.

9.27 Uncontrollable Forces - Neither Party shall be considered to be in default in the performance of any obligation under this Agreement (other than an obligation to make payment for bills rendered pursuant to this Agreement) when a failure of performance shall be the result of Uncontrollable Forces. The term "Uncontrollable Forces" shall mean any cause or causes beyond the control of the Party unable to perform such obligation, including, but not limited to, failure of or threat of failure of facilities, flood, earthquake, storm, fire, pestilence, lightning and other natural catastrophes, epidemic, war, riot, civil disturbance or disobedience, sabotage, strike, lockout, labor disturbance, labor or material shortage, government priorities and restraint by court order or public authority and action or nonaction by, or inability to obtain or maintain in effect the necessary authorizations or approvals from, any governmental agency or authority, any of which cause or causes by exercise of due diligence such Party

could not reasonably have been expected to avoid and which by exercise of due diligence it has been unable to overcome. Nothing contained in this Section 9.27 shall be construed as requiring a Party to settle any strike, lockout or labor dispute in which it may be involved, or to accept any permit, certificate or other authorization, or to enter into other contracts or commit to financing arrangements, which contain conditions or terms which the Party determines are unduly burdensome.

9.28 Unilateral Rate Changes - Except as expressly provided in Appendix A, no provision of this Agreement shall be construed as affecting in any way PG&E's right to file unilaterally with FERC a change in rate or rate methodology under Section 205 of the Federal Power Act or City's right under that same statute to challenge such a filing.

9.29 Settlement of Disputes and Arbitration

9.29.1 As a matter of normal business under this Agreement, the Parties agree to make best efforts to settle all disputes connected with this Agreement. Unless otherwise expressly provided in this Agreement, the Parties agree to the following procedure for recourse in the event that any such disputes, exclusive only of the prices for the services listed in Appendix A, are not settled. The Party disputing any bill which has not been resolved pursuant to the provisions of Section 8.4, or any other issue arising under this Agreement, shall, within fifteen (15) calendar

days of the discovery of the occurrence of the cause or event giving rise to the dispute submit a written notice to the other Party stating the nature of and details concerning the dispute.

9.29.1.1 In the case of a disputed bill only, the fifteen (15) day notice period shall commence upon the expiration of the fifteen (15) day period for disputed bill resolution specified in Section 8.4.

9.29.1.2 Each Party shall prepare and deliver its offer of settlement for consideration by the other within fifteen (15) calendar days of the date the complaining Party delivers its written notice of dispute. The Parties shall attempt to settle all disputes as soon as possible, but in no case later than thirty (30) calendar days after the date the complaining Party delivers its written notice of dispute. The Parties may mutually agree in writing to extend the thirty (30) day period.

9.29.1.3 If the Parties fail to resolve any dispute within the thirty (30) day period (or an extension of that period as provided in Section 9.29.1.2) the complaining Party may commence arbitration under Section 9.29.2. However, if the complaining Party has not commenced arbitration under Section 9.29.2 within fifteen (15) calendar days after the end of that thirty (30) day period (as it may be extended), the complaining Party shall

be deemed to have waived all present and future claims with respect to such dispute.

9.29.2 Arbitration - Disputes arising under this Agreement that have not been resolved under Section 9.29.1 shall be settled through arbitration as provided in this Section 9.29.2; provided, that such arbitration is commenced within the time period specified in Section 9.29.1.3.

9.29.2.1 The complaining Party shall commence arbitration by delivering written notice to the other Party.

9.29.2.2 Any arbitration commenced pursuant to this Section 9.29.2 shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. To the extent they are consistent with this Agreement, the provisions of California Code of Civil Procedure, Sections 1283 and 1283.05 shall apply to the arbitration, except that such discovery shall not include written interrogatories. Except for Section 1281, the Parties do not intend to adopt any other provision of Title 9 of Part III of the California Code of Civil Procedure. The subject matter of discovery may extend to any matters directly related to the specific issues to be arbitrated.

9.29.2.3 Within thirty (30) calendar days after the complaining Party delivers notice of commencement of arbitration, each Party shall deliver to the other Party

a written proposal to resolve the dispute. If either Party does not deliver a proposal within the thirty (30) day period, that Party shall have waived its right to participate in the arbitration and shall be bound by the terms of the other Party's proposal. Either Party may revise and supersede its initial proposal and deliver that revised proposal to the other Party within seven (7) calendar days of receipt of the other Party's proposal.

9.29.2.4 The Parties shall agree on a single arbitrator who must have an understanding of the utility industry acceptable to both Parties. If the Parties cannot agree on an arbitrator within fifteen (15) calendar days after delivery of the notice of commencement of arbitration, the arbitrator will be selected from among the names of three arbitrators provided by the American Arbitration Association. Each Party shall, within fifteen (15) additional calendar days, strike one of the three names from this list of arbitrators. The remaining arbitrator shall be the person who hears the arbitration. All arbitrators whose names were provided by the American Arbitration Association shall be experts in the general field concerning the subject matter of the dispute. However, in the event of arbitration under Section 6.4 of this Agreement, there may be three (3) arbitrators chosen from a list containing a number of candidates equal to the number of parties plus three (3),

each of whom meets the qualifications of this Section 9.29.2.4.

9.29.2.5 The Parties shall complete discovery and the arbitrator shall begin a hearing within sixty (60) calendar days after selection of the arbitrator. After a hearing at which both Parties have the opportunity to be represented, the arbitrator will accept one Party's proposal within ninety (90) calendar days after delivery of notice of commencement of arbitration, unless the arbitrator requests and is granted an extension of time by the Parties. The Parties shall not unreasonably decline the arbitrator's request for an extension.

9.29.2.6 The Parties may settle at any time prior to issuance of the arbitrator's decision.

9.29.2.7 In the event of a dispute over the proper application of Good Utility Practice, the arbitrator shall determine which Party's written final offer more reasonably represents Good Utility Practice. If the disputed matter does not clearly involve the application of Good Utility Practice, the arbitrator shall determine which Party's final written offer more reasonably applies the relevant standards of this Agreement and intent of the Parties at the time this Agreement was executed, or, absent contractual standards or clear intent of the Parties, which Party's final written offer is more reasonable under the circumstances. The arbitrator shall specifically consider

all factors relevant to the reasonableness of each Parties' final written offers, including, but not limited to, the facts known to the Party at the time of the action complained of, the amount of time available in which to act or decide the urgency or emergency nature of the act, existing contractual arrangements and the nature and extent of the Parties' perceived risks to the reliability and safety of their respective electric systems, and other factors relevant under the circumstances. Nothing contained herein shall permit the arbitrator to waive or change any of the provisions of this Agreement, including this Section 9.29.

9.29.2.8 The arbitrator's decision shall be in writing, stating the grounds for arriving at that decision. It is the intent of the Parties that the decision of the arbitrator shall be binding upon both Parties, and both Parties hereby agree to be bound by the arbitrator's decision, except as provided in Section 9.29.2.10. After the written decision by the arbitrator is issued, the Parties shall immediately take, and shall complete within a reasonable time thereafter, whatever action is required to comply with the accepted proposal. Any and all expenses associated with the arbitration shall be borne by the Party sponsoring the rejected proposal. The decision of the arbitrator may be enforced by any court or agency having jurisdiction over the Party against which the decision is

rendered. In addition to any legal remedies to enforce the arbitrator's decision, the failure of either Party to abide by that decision by immediately taking whatever action is required to comply with that decision and completing that compliance within a reasonable time thereafter shall be cause, at the sole discretion of the other Party, to invoke the termination provision of Sections 9.26 and 9.29.2.11.

9.29.2.9 The Parties agree to support the arbitrator's decision if that decision is challenged by any Third Party, including FERC.

9.29.2.10 Either Party desiring to challenge the arbitrator's decision may do so only upon the grounds that the decision is fraudulent or arbitrary, so grossly erroneous as to necessarily imply bad faith, or is not in the "public interest" as that term is interpreted under Sections 205 and 206 of the Federal Power Act.

9.29.2.11 The termination provisions of Section 9.26 may be invoked if either Party (a) refuses or fails to abide by the decision of the arbitrator, unless the arbitrator's decision is appealed in accordance with Section 9.29.2.10, or (b) refuses or fails to abide by a final appellate decision on the arbitrator's decision.

9.30 Waiver of Rights - Any waiver at any time by either Party of its rights with respect to a default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or

be deemed a waiver with respect to any subsequent default or other matter arising in connection with this Agreement. Any delay, short of the statutory period of limitations, in asserting or enforcing any right shall not constitute or be deemed a waiver.

9.31 Subsequent Material Modification - If (a) FERC or any other regulatory body or agency or any court of competent jurisdiction materially modifies this Agreement in such a manner that either Party is required to incur new or different obligations not expressly provided herein, or (b) City has not reached a separate agreement with the Districts by March 31, 1988, or (c) if City implements municipalization, by voter approval or approval of the Board of Supervisors, or otherwise engages in sales to PG&E's retail customers other than as expressly provided in this Agreement, the Parties shall attempt in good faith to renegotiate the terms and conditions of this Agreement so as to restore the original balance of benefits and burdens contemplated by the Parties as of the date of this Agreement is executed. If this new agreement cannot be negotiated and filed with FERC within six months after the commencement of negotiations, either Party may deliver to the other a written notice of termination of this Agreement, which termination shall become effective in accordance with the provisions of Section 9.26.2.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed the day and Year first above written.

MAYOR OF THE
CITY AND COUNTY OF SAN FRANCISCO

_____
Dianne Feinstein
Mayor

APPROVED AS TO FORM:

_____
Louise H. Renne
City Attorney

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

_____
George E. Krueger
Utilities General
Counsel

_____
Donald J. Birrer
General Manager
Public Utilities Commission

Authorized by Public Utilities Commission

Resolution No. _____

Adopted: _____

Attest: _____

_____
Romaine A. Boldridge
Secretary

PACIFIC GAS AND ELECTRIC COMPANY

_____
Robert J. Haywood
Vice President - Power Contracts

APPENDIX A

RATE SCHEDULES AND ADJUSTMENTS

APPENDIX A

RATE APPENDIX

INTRODUCTION

The Parties hereby agree that the services set out below and described more fully in the Agreement shall be provided to City by PG&E at the rates and pursuant to the terms and conditions specified in this Appendix A. However, the Parties agree that this Appendix A shall not be deemed to amend, modify, or define any of the terms or conditions of the Agreement. Should any of the provisions of this Appendix A be in conflict or inconsistent with the terms or conditions of the Agreement, the terms and conditions of the Agreement shall govern.

The rates, rate formulas and billing parameters specified in this Appendix A have been developed through detailed negotiations between the Parties. In recognition of this effort and its successful conclusion, the Parties hereby agree that rates and rate formulas specified in this Appendix A are not subject to challenge by either Party, except as provided in Section 9.28 of the Agreement. The Parties agree to make every effort to ensure acceptance by the Federal Energy Regulatory Commission (FERC) of the Agreement and this Appendix A as proposed. This Appendix A supersedes and replaces all rate schedules for service to City on file with FERC as of the Effective Date of the Agreement.

The provisions of this Appendix A are subject to acceptance by FERC in their entirety and without change or condition unsatisfactory to either Party. Each term of this Appendix A is in consideration and support of every other term herein, and of the Agreement as a whole. Should FERC modify any provision of this Appendix A in a manner unsatisfactory to either Party, this Appendix A shall not become effective, and shall be deemed terminated and withdrawn. Furthermore, it shall not constitute any part of the record in any FERC proceeding or be used for any other purposes whether between the Parties or between either Party and Third Parties. In the event that FERC action with respect to this Appendix A results in the termination and withdrawal of this Appendix A, PG&E and City shall use their best efforts to renegotiate this Appendix A.

The agreement reached by the Parties and presented in this Appendix A consists of three parts. First, the Parties have agreed on initial rates, rate formulas and billing parameters (Part I) to be effective as of the Effective Date of the Agreement for the following services to be provided by PG&E to City: Supplemental Power service, Maintenance Power service, Emergency Power service, Spinning Reserve service, Capacity Reserve service, Firm Transmission and Distribution Service for Municipal Load, other firm transmission and distribution service, interruptible transmission service, scheduling service, and regulation service.

Second, the Parties have agreed on the rate treatment for Diablo Canyon Nuclear Power Plant Units No. 1 and 2 (Diablo). A Diablo demand charge (Interim Diablo Adjustment) is included as part of the rates for Supplemental Power service and Maintenance Power and Emergency Power service. To facilitate the adjustment of the Interim Diablo Adjustment for consistency with the final CPUC Diablo decision, this Appendix A contains a rate procedure for Diablo (Part II).

Third, the Parties have agreed to a Fuel Cost Adjustment (FCA) mechanism (Part III) to be filed with FERC and applicable to Supplemental Power Service and Maintenance Power and Emergency Power Service.

Except as otherwise provided in this Appendix A, nothing in this Appendix A shall be construed as affecting either Party's rights under Sections 205 and 206 of the Federal Power Act. Nothing in this Appendix A shall be construed as affecting in any way the rights of PG&E under the Agreement unilaterally to make application to FERC for a change in rates under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder. Neither Party shall be deemed to waive its right to object to or seek rejection of any filing or action by the other Party which is inconsistent with the provisions of this Appendix A; provided that rate levels in Rate Schedules A through I will not be subject to change by PG&E or objection by City prior to January 1, 1990, except pursuant to the terms of this Appendix A. The term "rates" as used herein shall mean a

statement of electric services as provided in the Agreement, rates and charges for or in connection with those services, and all classifications, practices, rules, regulations, or contracts which in any manner affect or relate to such services, rates, and charges. A change in rates may include, but is not limited to, changes in rates and charges or in the underlying formulas and/or methodologies and principles by which such rates and charges are developed. Should Section 205 of the Federal Power Act or Section 35.13 of the FERC Regulations or any successor laws or regulations be unavailable as a means of changing the rates established pursuant to this Appendix A, PG&E reserves the right to change rates in this Appendix A pursuant to Section 206 of the Federal Power Act or any successor laws or pursuant to any other applicable laws.

This Appendix A shall be effective on the Effective Date of the Agreement, unless City requests a one-day suspension of this Appendix A, in which event this Appendix A shall be effective one-day prior to the Effective Date of the Agreement.

This Appendix A shall remain in effect until changed, superseded or terminated, in whole or in part, by agreements between the Parties or by unilateral rate or rate schedule changes filed and accepted for filing with FERC in accordance with this Appendix A.

PART I

1 Purchase Power Payments

In the event PG&E is required to purchase capacity, energy or other services to meet City's requirements under any service covered by this Appendix A at costs higher than rates provided in filed rate schedules applicable to City, and informs City of such a requirement, City shall pay the cost for such capacity, energy or other services if City agrees to accept such services, and if the purchase requirement can be demonstrated by PG&E to be specifically related to City's requirements. City shall not be required to pay such costs higher than rates provided in the filed rate schedules if the cost is incurred for services that are committed to by City in advance (such as Capacity Reserve).

2 Supplemental Power (Rate Schedule A)

General Provisions

Rate Schedule A is applicable to Supplemental Power sales by PG&E to City, as described in Section 2.4 of the Agreement and Section 2.1 of Appendix J, to meet portions of City's Firm Resale Load. This service shall require firm transmission service as provided in Section 5 of this Part I.

The Service Charge for Supplemental Power shall be:

1988	$4,343 per month
1989	$4,452 per month

The Service Charge is composed of the following charges:

	1988	1989
Customer Costs	$ 833/mo	$ 854/mo
Scheduling Service Base Fee (Rate Schedule H)	$2,860/mo	$2,932/mo
Regulation Service (Rate Schedule I)	$ 650/mo	$ 666/mo
	$4,343/mo	$4,452/mo

The variable charge for Scheduling Service will continue to be billed under Rate Schedule H.

Specific Provisions for Billing

To ease the billing computations, the Parties agree to treat City's purchases of Supplemental Power (demand portion) for Riverbank and Airport Tenants separate from City's other needs for Supplemental Power.

A-1.1 Billing for Supplemental Power A-1

Billing Demand

The greater of (i) the maximum positive half-hourly portion of demand as determined in Appendix J for Supplemental Power provided to Airport Tenants and Riverbank in the Billing Period or (ii) the maximum positive half-hourly portion of demand for Supplemental Power provided to Airport Tenants or Riverbank in the previous (eleven) Billing Periods.

The rate for Supplemental Power A-1 are:

	1988	1989
Demand Charge:	$12.863/kW-mo.	$13.185/kW-mo.
Energy Charge:	$0.00801/kWh + FCA	$0.00821/kWh + FCA

A-1.2 Charges for services provided under this Subsection A-1 of Rate Schedule A shall be the sum of: (i) the product of the billing demand as determined pursuant to A-1.1 above and the demand charge, plus (ii) the product of the energy billing amount as determined by Appendix J and the energy charge.

A-1.3 City shall purchase firm transmission service under Rate Schedule D for deliveries of Supplemental Power A-1. For deliveries to Airport Tenants, City shall pay for System Interconnection, Generation Tie, Backbone and Area. For deliveries to Riverbank, City shall pay for System Interconnection, Generation Tie and Backbone.

A-2.1 Billing for Supplemental Power A-2

Billing Demand

For Dry Years, as defined in Section 3 of Appendix F: The maximum positive half-hourly portion of demand as determined in Appendix J for Supplemental Power provided to Districts during the Billing Period, calculated by subtracting from the total of such Supplemental Power demand in each half hour the Capacity Reserve supplied by PG&E pursuant to Section 2.8 of the Agreement, less any portion of such Capacity Reserve scheduled during such half hour for Maintenance Power, Emergency Power or Spinning Reserve.

For non-Dry Years: The greater of (i) the maximum positive half-hourly portion of demand as determined in Appendix J for Supplemental Power provided to Districts in the Billing Period during the hours of 10:30 a.m. to 8:00 p.m. on Work Days, or (ii) the maximum positive half-hourly portion of demand as determined in Appendix J for Supplemental Power provided to Districts during all other hours in the Billing Period, calculated by subtracting from the total Supplemental

Power demand for Districts in each such half hour the Capacity Reserve supplied by PG&E pursuant to Section 2.8 of the Agreement, less any portion of such Capacity Reserve scheduled during such half hour for Maintenance Power, Emergency Power or Spinning Reserve.

The rates for Supplemental Power A-2 are:

	1988	1989
Demand Charge:	$12.863/kW-mo.	$13.185/kW-mo.
Energy Charge:	$0.00801/kWh + FCA	$0.00821/kWh + FCA

A-2.2 Charges for services provided under this Subsection A-2 of Rate Schedule A shall be the sum of: (i) the product of the billing demand as determined pursuant to A-2.1 above and the demand charge, plus (ii) the product of the energy billing amount as determined by Appendix J and the energy charge.

A-2.3 City shall purchase firm transmission service under Rate Schedule D for deliveries of Supplemental Power A-2. For deliveries to Districts, City shall pay for System Interconnection, Generation Tie, and Backbone.

3 Maintenance Power and Emergency Power (Rate Schedule B)

Rate Schedule B is applicable to Maintenance Power sales by PG&E to City as described in Sections 2.5 and 5.6 of the Agreement and Emergency Power sales by PG&E to City as described in Section 2.6 of the Agreement. This service shall require firm transmission service as provided in Section 5 of this Part I.

The rates for this service are:

Demand Charge:

1988	$12.863/kW-mo.
1989	$13.185/kW-mo.

Energy Charge:

1988	$0.00801/kWh + FCA
1989	$0.00821/kWh + FCA

Start-up Charge:

If incurred, the cost of starting up and bringing on line the most economical thermal generating unit which is available to the PG&E system but is not, at the

time of the City Forced Outage, being utilized to meet PG&E's system load and contractual obligations.

3.1 Charges for services provided under this Rate Schedule B shall be the sum of: (i) the product of the billing demand as determined pursuant to Section 3.2 below and the demand charge, plus (ii) the product of the energy billing amount as determined pursuant to Section 3.3 below and the energy charge, plus (iii) the start-up charge.

3.2 Billing Demand

The maximum positive half-hourly demand for the Billing Period calculated by subtracting from the total of Maintenance Power and Emergency Power scheduled in each half-hour the Capacity Reserve supplied by PG&E under Section 2.8 of the Agreement less any portion of such Capacity Reserve being used during such half-hour to provide Spinning Reserve or being used to provide Supplemental Power credit, pursuant to Section 3 of Appendix J and Section A-2.1 above, but not less than zero.

3.3 Energy Billing Amount

The energy billing amount shall be the amount determined pursuant to Appendix J.

4 Firm Transmission and Distribution Service for Municipal Load (Rate Schedule C)

Rate Schedule C is applicable to Firm Transmission and Distribution Service for Municipal Load, as described in Section 3.1.1 of the Agreement.

4.1 The rates for this service are:

	(per kWh)	
	1988	1989
Railway	$0.01066	$0.01093
Street Lighting	$0.01699	$0.01741
Crystal Springs and Lake Merced Pumps	$0.00661	$0.00678
San Francisco International Airport (Municipal Load Portion)	$0.00413	$0.00423
All Other Uses	$0.01479	$0.01516

5 Other Firm Transmission and Distribution Service (Rate Schedule D)

Rate Schedule D is applicable to other firm transmission and distribution service, as described in Section 3.1.2 of the Agreement.

	1988	1989
System Interconnection:	$0.071/kW-mo.	$0.073/kW-mo.
Generation Tie:	$0.487/kW-mo.	$0.499/kW-mo.

	1988	1989
Backbone:	$0.567/kW-mo.	$0.581/kW-mo.
Area:	$1.091/kW/mo.	$1.118/kW-mo.

Billing Demand for Transmission:

System Interconnection = A + B + C + D

Generation Tie = A + B + C + D

Backbone = A + B + C + D + E

Area = B + C

A = Any transmission used by City in addition to the amounts provided for in Appendix D, including transmission for Supplemental Power A-2 (before the billing credit of Capacity Reserve as described in Appendix J), Maintenance Power or Emergency Power.

B = Any adjustment agreed to by the Parties.

C = Airport Tenants Supplemental Power demand

D = Riverbank Supplemental Power demand

E = kW amount at Newark or Warnerville Substation as provided in Exhibit D-1 of Appendix D, whichever is greater

Less: Monthly Municipal Load in kWh divided by 730;

Less: variables "C" and "D" above;

or zero, whichever is greater

6 Interruptible Transmission Service (Rate Schedule E)

Rate Schedule E is applicable to interruptible transmission service as described in Section 3.1.4 of the Agreement. The rates for this service are:

	1988	1989
System Interconnection:	$0.00013/kWh	$0.00014/kWh
Generation Tie:	$0.00093/kWh	$0.00095/kWh
Backbone:	$0.00108/kWh	$0.00110/kWh
Area:	$0.00207/kW	$0.00213/kwh

6.1 Interruptible transmission service shall be provided on a scheduled kWh basis.

6.2 City will be billed for the hourly scheduled amount of service from PG&E adjusted for losses.

7 Reserve Services (Rate Schedules F and G)

Rate Schedules F and G are applicable to Reserve Services provided by PG&E to City, as described in Sections 2.8 and 4 of the Agreement and Appendices C and J.

7.1 Capacity Reserve (Rate Schedule F)

The rates for Capacity Reserve service shall be $6.25 per kW-mo. The Parties agree that this rate ($6.25 kW-mo) shall be in effect until December 31, 1992. The Parties further agree that the methodology used in determining this rate as described in Exhibit 1 to this Part I, shall be used for the length of the Agreement.

City will be billed on an annual basis for the amounts contracted for pursuant to Section 2.8 of the Agreement and for Capacity Reserve purchased pursuant to Section 4.1 of the Agreement and Appendix C. City will pay for the annual bill in twelve (12) equal monthly payments.

7.2 Spinning Reserve (Rate Schedule G)

Rates for Spinning Reserve service are based on PG&E's operating cost of providing additional Spinning Reserve and the Supplemental Power demand rate, expressed in $/kWh and $/kW-month. The billing for Spinning Reserve is determined as follows:

$$A = (B \times C) + (D \times E)$$

where:

A = the monthly billing amount in dollars;

B = the number of kWh of Spinning Reserve scheduled pursuant to Section 5.3 of the Agreement and Appendix H;

C = the Spinning Reserve rate which is initially $0.00274/kWh;

D = the maximum number of kW of Spinning Reserve provided by PG&E pursuant to Section 4.2.3 of the Agreement or Spinning Reserve in excess of City's entitlement of Spinning Reserve pursuant to Section 2.8.2 of the Agreement that are not also being used for Emergency Power, Maintenance Power, or being used to provide Supplemental Power credit pursuant to Section 3 of Appendix J and Section A-2.1 above; and

E = the demand charge for Supplemental Power service.

8 Scheduling Change Service (Rate Schedule H)

Rate Schedule H is applicable to Scheduling Change Service that PG&E provides City, as described in Section 5.3 of the Agreement and Appendix H.

	1988	1989
Scheduling Change Fee:	$13.60/transaction	$13.94/transaction

8.2 The charges for services for each Billing Period provided under this Rate Schedule H shall be the product of the scheduling change billing units, as determined in Section 8.3 of this Appendix A, and the scheduling change fee.

8.3 The scheduling change billing units shall be the number of voice communications that result in manual scheduling changes made to the schedule of the day (as described in Appendix H) in the Billing Period for any one or more half-hour scheduling periods as follows: (a) a change in City's schedule for Midway, Malin, Donner Summit or California Department of Water Resources; or (b) an in-Control Area change totaling forty (40) megawatts, or more, made at one time.

9 Regulation Service (Rate Schedule I)

As part of operating the northern and central California Control Area, PG&E must ensure that area load is matched by generation second by second. City is part of this Control Area. PG&E conforms to the North American Electric Reliability Council requirements for load following. PG&E bears equipment and operating costs associated with continuously matching generation of load, and must dispatch some of its generating units to meet the requirements of operating the Control

Area. PG&E will charge a regulation service rate to recover these costs. PG&E will base the Regulation Service Charge on the costs of Automatic Generation Control equipment.

The charge for this service for each Billing Period will be included as part of the service charge in Rate Schedule A.

10 Reactive Power and Voltage Control Service (Rate Schedule J)

Rate Schedule J is applicable to the provision by PG&E of facilities and services for the maintenance of power factor or voltage control by PG&E to City for reactive power and voltage control as described in Section 5.9 of the Agreement. Should such service be necessary, PG&E may, at its sole election, either: (a) require City to reimburse PG&E for all costs necessary for power factor correction or maintenance of voltage control or (b) file a rate schedule for this service.

PG&E may elect to file such a rate schedule as an initial rate, within the meaning of Sections 2.4, 35.1 and 35.12 of the FERC's Regulations. City may elect to challenge such rate and to object to its proposed acceptance by the FERC as an initial rate schedule. However, in initiating or pursuing such challenge, City shall strictly limit its arguments to the circumstances surrounding its relationship, or lack thereof, to PG&E prior to the Effective Date of the Agreement.

Service to City by PG&E under any of the rate schedules made effective as of the Effective Date of the Agreement shall not be considered for precedential purposes, in determining whether Rate Schedule J shall be considered an initial rate schedule within the meaning of the FERC's Regulations. The Parties shall assume that Rate Schedule J is effective as of the Effective Date of the Agreement for purposes of argument with regard to Rate Schedule J's status as an initial rate schedule within the meaning of the FERC's Regulations.

EXHIBIT 1

COMBUSTION TURBINE COST

RATE DESIGN

[This Exhibit is provided as an example of the methodology used to determine the Capacity Reserve rate.]

The Parties agree that charges for Capacity Reserve will be based on the imputed cost to PG&E of providing that specific service, and specifically, that the type of generating resource which would be used is a combustion turbine (CT). However, as PG&E has not installed a CT within the last 10 years, the Parties further agree that the cost to PG&E of providing support power service is best estimated as the cost to PG&E of new CT capacity, as detailed below, but by agreement not to exceed a $6.25 per kW-month equivalent charge for the period of January 1, 1988 through December 31, 1992.

The cost to PG&E is based on the following set of assumptions.

Year Facility to go On-Line:	1988
Life of Facility:	30 years
Installed Capacity:	82 MW
Installed cost including siting not including generation tie:	$370.00 per kW-yr.
Fixed O&M:	$ 4.89 per kW-yr.
10-Day Fuel Inventory Cost:	$104.00 per year

The rate associated with this generating unit is based on three cost components: fixed capital, fixed O&M, and the 10-day fuel inventory cost. It is calculated as the levelized revenue requirement over a 30-year period and results in the following:

Levelized Annual Rate:	$68.81 per kw-yr
Levelized Monthly Rate:	$ 5.734 per kw-mo

This rate is then representative of the cost of a CT to PG&E in 1988 for a 30-year service life. However, in reality, the service that City receives is necessarily more reliable than this type of facility would provide. Because PG&E is providing this service with (unseparable) system power which is always available, it is more "certain" than power from a CT, which has a forced outage rate currently estimated to be fifteen (15) percent and a start-failure rate as high as 50 percent. Therefore, the levelized monthly rate must be adjusted to compensate PG&E for the higher reliability of service. This is done as follows:

Levelized Monthly Rate:	$5.734 per month
Adjustment Factor: (1/.85)	1.176
Adjusted CT Capacity Rate:	$6.746 per month

Finally, as agreed in negotiations, the rate is capped by the amount, $6.25 through December 31, 1992. Therefore:

Capacity Reserve Rate: $6.25 per kW-month

PART II

RATE PROCEDURE

FOR DIABLO CANYON UNITS NO. 1 AND NO. 2

1. In accordance with the intention of PG&E and City to establish cost recovery for Diablo, the Parties hereby agree to Interim Diablo Adjustment (IDA) charges to be included in Rate Schedules A and B of this Appendix A. Except as expressly provided in this Part II, no further charges for Diablo shall be applied to City for the years 1988 and 1989, nor shall any Diablo true-up or rate or revenue adjustment as a result of any CPUC proceeding, decision, or ratemaking or prudence decision be required for the years 1988 and 1989. To the extent any CPUC decision allows recovery of Diablo costs or balancing account amounts from years 1988 and 1989 in CPUC rates in effect after December 31, 1989, PG&E shall not charge City for such amounts through any PG&E rates in effect to City after December 31, 1989.

2. During the term of this Appendix A, if the CPUC issues a final ratemaking and prudence decision for Diablo, the IDA will be adjusted to reflect the percentage of PG&E's investment in Diablo which the CPUC authorizes to be included in the CPUC jurisdictional rate base as of the effective date of such decision.

3. The Parties further agree that on January 1, 1990, or the effective date of the final ratemaking and prudence decision of the CPUC for Diablo, whichever is later, the percentage of PG&E's investment in Diablo authorized by the CPUC to be included in PG&E's CPUC jurisdictional rate base shall be the maximum Diablo rate base used for ratemaking purposes by PG&E for City under the Agreement during the period of time the CPUC allows Diablo to be included as part of PG&E's CPUC jurisdictional rate base. This procedure shall be eliminated without precedential effect upon termination of the Agreement.

4. Rate Adjustments

The Parties agree that PG&E may utilize an "Abbreviated Notice of Rate Change" in filing all adjustments to the IDA under this Part II of Appendix A, pursuant to Section 35.13 of the FERC Regulations under the Federal Power Act, 18 C.F.R. Section 35.13. Said Abbreviated Notice of Rate Change shall consist of: (a) a filing letter containing any necessary calculations made in accordance with the formulas set forth herein; (b) the underlying CPUC Diablo order or decision upon which the adjustment is based; and (c) such other limited data as FERC or its staff may specifically require. City agrees to support a request by PG&E that FERC waive the requirements of Section 35.13 to the extent that such requirements are not satisfied by the format described above.

The Parties agree that City will seek either no suspension or no more than a one-day suspension of the effective date of any adjustment made pursuant to this Part II of Appendix A. In the event that any Party does request a one-day suspension in connection with any proposed adjustment in the IDA, that Party has agreed that the proposed effective date of such adjustment will be deemed to be the day before the effective date of the CPUC Diablo decision so that the effective date for the rates established under this Part II, with a one-day suspension, will be the same as the effective date of such CPUC Diablo decision. A one-day suspension, hearing, and other appropriate relief pursuant to Section 205 of the Federal Power Act shall be requested only on the basis of PG&E's alleged failure to accurately apply the terms of this Part II to the computation of the IDA. A request for a one-day suspension, hearing, and appropriate relief shall not be based on disagreement with the billing parameters, procedures, and mechanisms agreed to herein. In light of this procedure for validating the compliance of any proposed rates with the terms of this Part II, the Parties agree to defend and uphold both the terms of the Agreement and the rates established pursuant to the Agreement in any forum, whether judicial, administrative, or otherwise, in which it is alleged that any terms of the Agreement or any rate established pursuant to the Agreement is unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful or that such term or rate results in a "price squeeze," and agree that neither Party shall initiate or pursue any action in any forum based upon such allegations;

provided, that City may request a hearing pursuant to Section 206 of the Federal Power Act for the sole purpose of showing PG&E's alleged failure to accurately apply the terms of this Part II to the computation of the IDA.

The Parties agree to make or support any requests for waiver of the FERC Rules and Regulations necessary to implement the adjustment contemplated herein as of the effective date provided in this Part II; provided, that PG&E provides City with a copy of the final version of its proposed FERC filing, including supporting data and applicable CPUC orders, at least thirty (30) days prior to the date of filing with FERC, unless otherwise agreed by the Parties.

The revised IDA contemplated under this Part II cannot be specified until after the CPUC has issued the CPUC Diablo order. The filing of the Abbreviated Notice of Rate Change contemplated under this Part II will, of necessity, occur after the effective date for the adjustment. Therefore, the Parties agree that any increase or decrease in revenues resulting from such adjustment may be collected or refunded, if necessary, by PG&E as a separately identified surcharge or credit. Such agreement shall apply retroactively to the effective date for each such adjustment. This surcharge or credit will be derived from a recalculation of bills issued by PG&E under the revised IDA from the date of the FERC order permitting the proposed rate to become effective, retroactive

to the effective date for the proposed rate established pursuant to this Part II. In the event that a rate adjustment made hereunder results in the imposition of a surcharge, City shall have the option of paying such surcharge in a lump sum or in equal monthly payments up to twelve (12) months. All surcharges or refunds made pursuant to this Part II shall be with interest compounded monthly at an interest rate equal to 1/12 of the rate determined in accordance with Section 35.19a(2)(iii)(A) of FERC Regulations, 18 C.F.R. Section 35.19a(2)(iii)(A), as it may be amended.

PART III

FUEL COST ADJUSTMENT

1 The Parties hereby agree that the fuel cost adjustment (FCA) mechanism which shall be used in calculating the Fuel Adjustment Charge for Supplemental Power and Maintenance Power and Emergency Power shall be the fuel cost adjustment provided below. This fuel cost adjustment provision applies to bills for service to City under Rate Schedules A and B.

The FCA in effect prior to this FCA contained an Electric Energy Cost Adjustment Account. Any unamortized balance (either positive or negative) in the Electric Energy Cost Adjustment Account which is due to (or owed by) City as of the effective date of this Agreement shall be applied to City's bills from PG&E as a surcharge or credit, provided that City may elect to have any surcharge amortized over a period no longer than twelve (12) months. PG&E will confer with City in determining the amount of such adjustment.

2 Time Differentiation and Billing Amount

The Parties agree to time differentiation techniques to reflection in charges to City the variation in PG&E's fuel cost by five (5) pricing periods. The pricing periods that will be used initially are shown below and shall track changes in PG&E's retail time-of-use rate Schedule E-20, or its successor.

SUMMER (Service from May 1 through October 31):

On-Peak: 12:00 noon to 6:00 p.m. Monday through Friday (except holidays)

Partial Peak: 8:30 a.m. to 12:00 noon and 6:00 p.m. to 9:30 p.m. Monday through Friday (except holidays)

Off-Peak: 9:30 p.m. to 8:30 a.m. Monday through Friday and all day Saturday, Sunday, and holidays.

WINTER (November 1 through April 30):

Partial Peak: 8:30 a.m. to 9:30 p.m. Monday through Saturday (except holidays)

Off-Peak: 9:30 p.m. to 8:30 a.m. Monday through Saturday and all day Sunday and holidays

Holidays: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving Day, and Christmas.

The Parties agree to use the following negotiated coefficients to represent the time differentiation for the FCA:

Summer	
On-Peak	1.0898
Partial Peak	1.0432
Off-Peak	0.9448

Winter	
Partial Peak	1.0904
Off-Peak	0.9621

Kilowatt-hour sales in each pricing period will be multiplied by the coefficient for the same pricing period and the products summed to determine the Billing Amount for each month.

3 Fuel Adjustment Charge

The Fuel Adjustment Charge for each Billing Period shall be the sum of (1) the Adjustment Rate determined pursuant to Section 4 below multiplied by the Billing Amount determined pursuant to Section 2 above, plus (2) a True-up Amount as determined pursuant to Section 7 below.

4 Adjustment Rate

The Adjustment Rate, to become effective for meter readings on and after each Revision Date and continuing thereafter until the next Adjustment Rate becomes effective in accordance herewith, shall be: (1) the Estimated Current Cost of Thermal and Economy Energy determined as specified in Section 9 below; divided by (2) estimated total PG&E system sales for the Billing Period; multiplied by (3) .953 to reflect the difference between system and City losses and further multiplied by (4) 1.002 (to adjust for franchise expense) and carried to the nearest $0.00001 per kilowatt-hour.

5 Revision Dates

Each Revision Date is the first day of each Billing Period. On each Revision Date, PG&E shall place into effect a new Adjustment Rate.

6 Revised Adjustment Rate

The Revised Adjustment Rate shall be: (1) the Actual Current Cost of Thermal and Economy Energy as specified in Section 8 below; divided by (2) total PG&E system sales for the Billing Period two (2) months earlier; multiplied by (3) 0.953 to reflect the difference between system and City losses; and further multiplied by (4) 1.002 (to adjust for franchise expense) and carried to the nearest $0.00001 per kilowatt-hour.

7 True-Up Amount

The True-Up Amount is: (1) the Revised Adjustment Rate less the Adjustment Rate for the Billing Period two (2) months earlier; multiplied by (2) the Billing Amount for the Billing Period (2) months earlier. If this FCA mechanism as described herein is superseded, the successor FCA contemplated under the Agreement will provide for payment by PG&E to City or City to PG&E for any True-Up Amount applicable for each of the two (2) months subsequent to the last month this FCA mechanism was in effect.

8 Actual Current Cost of Thermal and Economy Energy

The Actual Current Cost of Thermal and Economy Energy shall be: (1) PG&E's cost of fossil and nuclear fuel (excluding fuel receipts in

payment for electric service) and PG&E's cost of geothermal production for electric generation in the Billing Period; plus (2) the cost of purchased thermal and economy energy in the Billing Period.

The cost of fossil fuel shall include no items other than those listed in Account 151 of the FERC Uniform System of Accounts. The cost of nuclear fuel shall be that as shown in Account 518, except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account. The cost of geothermal steam shall reflect the price (including payments for effluent disposal) of steam producers effective for production in the Billing Period.

9 Estimated Current Cost of Thermal and Economy Energy

The Estimated Current Cost of Thermal and Economy Energy shall be: (1) estimates of PG&E's cost of fossil and nuclear fuel (excluding fuel receipts in payment for electric service) and PG&E's estimated cost of geothermal production for electric generation in the Billing Period; plus (2) estimates of the cost of purchased thermal and economy energy in the Billing Period.

The cost of fossil fuel shall include no items other than those listed in Account 151 of the FERC Uniform System of Accounts. The cost of nuclear fuel shall be that as shown in Account 518, except that if

Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account. The cost of geothermal steam shall reflect the price (including payments for effluent disposal) of steam producers effective for production in the Billing Period.

APPENDIX B

CAPACITY RATING

APPENDIX B

CAPACITY RATING

1 In the event of an automatic adjustment made pursuant to Section 6.3 of the Agreement, PDC shall be automatically adjusted according to Table 1 and Sections 2 and 3 of this Appendix B.

TABLE 1

City Plant	Capacity Rating (MW)
Holm Powerhouse	
2 units in service	135.9
1 unit in service	75.0
0 unit in service	0
Kirkwood Powerhouse	
2 or 3 units in service	63.0
1 unit in service	42.0
0 unit in service	0
Moccasin Powerhouse	
2 units in service	90.7
1 unit in service	52.0
0 unit in service	0

2 The amount of PDC shall be automatically adjusted in accordance with the following formula:

PDC_{new} = Sum of the Capacity Ratings in Table 1 of the City Plants (or units) remaining in service or $PDC_{current}$, whichever is less.

3 Table 1 of this Appendix B reflects Capacity Ratings of City Plants when entire units are out of service. In the event that a unit or units of a City Plant are operating at reduced levels because of partial outages for a period as determined in Section 6.3 of the Agreement, Capacity Ratings which reflect such partial outages shall be used in lieu of the values in Table 1 of this Appendix B, as agreed by the Parties.

4 Table 1 of this Appendix B reflects Capacity Ratings of City Plants during dry years. Notwithstanding other provisions of this Appendix B, in the event that PG&E provides Maintenance or Emergency Power pursuant to the Agreement during periods other than dry years, Capacity Ratings which reflect prevailing hydrological and operating conditions shall be used in lieu of the values in Table 1 of this Appendix B, as agreed by the Parties.

APPENDIX C

CITY CAPACITY RESERVE REQUIREMENT

APPENDIX C

CITY CAPACITY RESERVE REQUIREMENT

The Parties agree that for the years 1988, 1989, 1990, 1991 and 1992, City Capacity Reserve shall be the following amounts:

	City Capacity Reserve
1988	59.8 MW
1989	59.8 MW
1990	59.8 MW
1991	59.8 MW
1992	59.8 MW

APPENDIX D

TRANSMISSION AND DISTRIBUTION AND LOSS FACTORS

EXHIBIT D-1

FIRM TRANSMISSION AND DISTRIBUTION SERVICE FOR CITY

Maximum Rates of Receipt at Interconnections (normal operation)

- Warnerville Substation (City) to PG&E: 175 MW*.
- Mocassin-Newark Line (City) to Newark Substation (PG&E): 150 MW.*

Maximum Rate of Delivery (normal operation)

- To Municipal Load and Airport Tenants: 200 MW.

---

* Transfers above these amounts may be allowed with the prior agreement of PG&E's system dispatcher. Unless agreed by PG&E's system dispatcher, City shall curtail generation if transfers of Power exceed the above limits. Such transfers shall be on an as-available basis only pursuant to Section 3.1.4.

EXHIBIT D-2

LOSS FACTORS

Between Scheduling Point and

Municipal Load, Airport Tenants and other City Loads

	Delivery Loss Factor *
Railway	1.084
Street Lighting	1.096
Crystal Springs/Lake Merced Pumps	1.058
San Francisco International Airport	1.035
All Other Uses	1.099
Turlock	1.000
Modesto	1.000
Riverbank	1.000

*Apply to Load to adjust to scheduling point.

Between City Plants and Scheduling Points	Delivery Loss Factor*
Standiford (Modesto)	1.0180
Oakdale (Turlock)	1.0205
Newark/Warnerville (Municipal Load and Airport Tenants)	1.0349
Riverbank	1.0205
System Average	1.0264

*Apply to Load (adjusted at scheduling point) to adjust to City Plants.

Between other Points on PG&E's System and Scheduling Points	Loss Factor*
System Interconnection	1.000466
Generation Tie	1.003262
Backbone	1.018800
Area	1.014610
Primary Distribution	1.014110

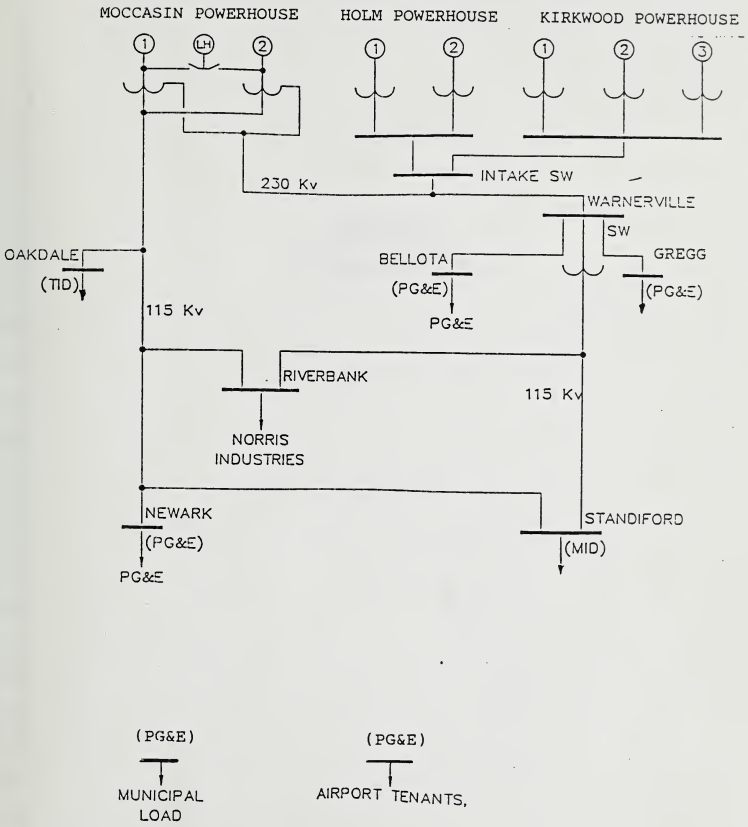
*Inverse of these factors may be applied to adjust sales at the scheduling point to loads or to adjust purchases to the scheduling points.

APPENDIX E

CITY FACILITIES AND INTERCONNECTIONS

APPENDIX E

CITY FACILITIES AND INTERCONNECTIONS



APPENDIX F

OPERATING CRITERIA

APPENDIX F

OPERATING CRITERIA

In order to provide a firm yield of water and Power from its Hetch Hetchy Project, City intends to operate the Hetch Hetchy Project as follows:

1 Minimum Storage Criteria

Except as provided in Sections 2 or 3 of this Appendix F, City shall operate to maintain minimum reservoir storage levels at the end of each month, as follows:

	Reservoirs(s) (Acre-feet)	
	Hetch Hetchy	Lloyd-Eleanor
Jan	173,600*	129,300
Feb	158,500*	126,400
Mar	152,000*	132,600
Apr	161,900*	151,300
May	254,500*	193,800
Jun	270,000	183,800
Jul	287,500	165,800
Aug	260,900	153,000
Sep	232,700	152,000
Oct	226,300	151,100
Nov	217,400	150,300
Dec	197,100*	143,000

* See Section 2 of this Appendix F.

2 Hetch Hetchy Reservoir Operation in Years With Adequate Runoff

Hetchy Hetchy Reservoir storage at the end of those months in Section 1 of this Appendix F marked with an asterisk (*) may be less than the minimums shown when it is evident that runoff will be sufficient to guarantee that the specified minimum storage for the succeeding end of June will be exceeded. The following guidelines shall be used to determine the amount, if any, by which the end-of-month storage may be less than specified:

(a) If, in any year, the accumulated precipitation from October 1, through November 30, measured at Hetch Hetchy Reservoir is greater than 8.2 inches, Hetch Hetchy Reservoir end-of-December storage can be reduced to 167,500 acre-feet (15% below Minimum Storage Criteria).

(b) If, in any year, the accumulated precipitation from October 1 through December 31, measured at Hetch Hetchy Reservoir is greater than 8.9 inches, Hetch Hetchy Reservoir end-of-January storage can be reduced to 147,600 acre-feet (15% below Minimum Storage Criteria).

(c) If at February 1, or the first of any of the next succeeding three (3) months, California Department of Water Resources "Water Conditions in California" forecast of runoff into Hetch Hetchy Reservoir is such that, after allowing for fish releases and releases through Kirkwood Powerhouse, there is estimated to be more than enough water to fill Hetch Hetchy Reservoir, then Hetch Hetchy Reservoir storage may be reduced up to twenty-five (25) percent below the Minimum Storage Criteria specified in Section 1 of this Appendix F for the end of that month.

(d) Hetch Hetchy Reservoir storage may be reduced more than twenty-five (25) percent below Minimum Storage Criteria at City's sole discretion; provided, that any reduction greater than twenty-five (25) percent is made solely at City's risk. City's subsequent inability to meet the Minimum Project Energy Requirements pursuant to Section 3 of Appendix F shall constitute grounds for immediate reduction in PDC pursuant to Section 3 of Appendix F.

3 Minimum Project Energy - Normal Operation

City shall make releases from its reservoirs to produce the following Minimum Project Energy for each month except in the event of a Forced Outage or as expressly provided in Section 3 of this Appendix F.

	Megawatt-Hours	
	Non-dry Years	Dry Years**
Jan	89,020	75,590
Feb	80,230	67,860
Mar	88,560	74,700
Apr	85,990	72,710
May	90,540	75,890
Jun	87,600	74,340
Jul	90,080	76,540
Aug	89,580	75,960
Sep	86,240	72,830
Oct	88,570	74,640
Nov	85,170	71,680
Dec	87,310	74,180
Year	1,048,890	886,920

** A Dry Year is defined as the second year of a drought when the combined storage of Hetch Hetchy and Eleanor-Lloyd Reservoirs will drop below 200,000 acre-feet. The Dry Year Minimum Project Energy requirements as provided in Section 3 of this Appendix F shall commence when the combined storage of Hetch Hetchy and Lloyd-Eleanor Reservoirs drops below 200,000 acre-feet and shall remain in effect until such time as the combined storage is greater than the combined Minimum Storage Criteria as provided in Section 1 of this Appendix F in effect for that month.

Except as otherwise expressly provided in this Agreement, PDC shall be adjusted using the following formula if City fails at any time during the term of

this Agreement to produce the monthly Minimum Project Energy amounts as provided in Section 3 of this Appendix F.

Existing PDC x (Actual monthly generation from City Plants)/(Required monthly Minimum Project Energy). Such adjusted PDC shall become effective immediately.

However, the Parties recognize that, in the event of a sustained drought more severe than 1976-1977, the Minimum Project Energy required by Section 3 of this Appendix F could result in storage levels in the Lloyd-Eleanor and/or Hetch Hetchy Reservoirs that would be less than the minimum levels stated by City in the original water and power study. These minimum storages are 100,000 acre-feet for both Lloyd-Eleanor and Hetch Hetchy Reservoirs at the end of December for the first year and 30,000 acre-feet for Lloyd-Eleanor Reservoir and 40,000 acre-feet for Hetch Hetchy Reservoir at the end of November of the second year. If, in the spring of such a more severe drought year, it is evident that operation in accordance with the requirements of Appendix F will cause the combined storage levels in the Lloyd-Eleanor or Hetch Hetchy Reservoirs to drop below the combined minimum levels stated in this paragraph, the Parties shall, at request of either

Party, develop temporary operating requirements to reduce the required Minimum Project Energy to amounts that ensures that the combined storage levels in the Lloyd-Eleanor and Hetch Hetchy Reservoirs are maintained at the minimum combined levels stated in this paragraph. These temporary operating requirements shall be embodied in a separate written agreement, which shall terminate at the end of the year in which it is made. The agreement shall take into account both City's obligations to its water customers and to New Don Pedro Reservoir and PG&E's franchise and contractual obligations to serve its customers' loads.

In accordance with the preceding paragraph, an agreement initiated in the first year of a drought shall result in an operation that brings the City's Hetch Hetchy and Lloyd-Eleanor Reservoir combined storages to 200,000 acre-feet at the end of that year. Likewise, an agreement initiated in a second year of a drought shall result in an operation that brings City's Hetch Hetchy and Lloyd-Eleanor Reservoir combined storages to 70,000 acre-feet at the end of the year. At all times, City shall use its best efforts to keep all City Plants in operation.

Notwithstanding the two preceding paragraphs, however, PG&E shall not be obligated to develop temporary operating requirements or to enter into a temporary operating agreement with City if City's prior operations were not in accordance with the requirements of this Appendix F. It is the express intent of the Parties that, in such a circumstance, PG&E's obligations under this Agreement to support City's Municipal Load and Firm Resale Load shall be limited to the express provisions of Section 2.7.3 and this Appendix F, including the adjustment of PDC provided for in Section 3 of this Appendix F, if appropriate.

4 <u>Minimum Project Energy - Forced Outage</u>

In any month where there is a Forced Outage at a City Plant the amount of monthly Minimum Project Energy shall be reduced by:

ER = RPC x Kplant x percentage of month City Plant is on Forced Outage.

where:

ER = Reduction in required monthly Minimum Project Energy in megawatt-hours

RPC = Amount that PDC has been reduced by the individual Forced Outage

Kplant = kWh/kW value from the following table

"Kplant" for Non-dry Years

	Powerhouse		
	Kirkwood	Moccasin	Holm
Jan	452	305	225
Feb	409	277	203
Mar	452	305	225
Apr	438	296	217
May	452	305	224
Jun	438	296	216
Jul	452	305	224
Aug	452	305	224
Sep	437	296	217
Oct	452	305	225
Nov	438	296	218
Dec	452	305	226

"Kplant" for Dry Years*

	Powerhouse		
	Kirkwood	Moccasin	Holm
Jan	362	244	226
Feb	327	221	205
Mar	362	244	227
Apr	350	236	219
May	362	244	226
Jun	350	236	218
Jul	362	244	226
Aug	362	244	227
Sep	350	236	220
Oct	362	244	228
Nov	350	236	221
Dec	362	244	228

*Dry years defined in Section 3 of this Appendix F.

APPENDIX G
REDETERMINATION OF PDC

APPENDIX G

REDETERMINATION OF PDC

The determination of total project capability is based on a computerized water and power study performed by PG&E in conjunction with City using certain assumptions and data provided by City. The resulting individual plant capabilities in August of 1977 were aggregated to determine total project capability. PDC cannot exceed total project capability. The Minimum Storage Criteria and Minimum Project Energy in Appendix F were also developed based on the results of the same water and power study. The assumptions and data were verified in letters from PG&E to City and City to PG&E, dated February 27, 1987 and March 12, 1987, respectively. Because the water and power study is based on assumptions and data provided by City and because City's actual water and power operations are not controlled by PG&E, PG&E cannot guarantee and does not warrant City's ability to generate Minimum Project Energy or to meet Minimum Storage Criteria pursuant to Appendix F.

The primary assumptions are listed below:

(a) Lloyd Reservoir and Eleanor Reservoir are assumed to act as one combined reservoir (Lloyd-Eleanor Reservoir).

(b) Absolute minimum storage level in Lloyd-Eleanor reservoirs of 30,000 acre-feet and 40,000 acre-feet in Hetch Hetchy Reservoir.

(c) Maximum storage level of 307,000 acre-feet in Lloyd-Eleanor Reservoir and 360,600 acre-feet in Hetch Hetchy Reservoir.

(d) Reservoir area, capacity, elevation relationships for Lloyd-Eleanor and Hetch Hetchy Reservoir as supplied by City as shown in Table 1 of this Appendix G.

(e) Reservoir evaporation rates consistent with those used for the Tuolumne River Flow Accounting. Evaporation in acre-feet is obtained by multiplying the reservoir area by the appropriate net depth in evaporation factor from the following table:

<u>Net Depth of Evaporation Factor</u>

Jan = -0.00325269	Jul = 0.00975807
Feb = -0.00360119	Aug = 0.00975807
Mar = 0.00000000	Sep = 0.00672222
Apr = 0.00000000	Oct = 0.00325269
May = 0.00325269	Nov = 0.00000000
Jun = 0.00672222	Dec = 0.00000000

(f) Generator output for Holm Powerhouse is determined on the basis of power curves shown on Drawing SK-610330-AKN provided by City. Maximum plant output as derived from the curves is shown in Table 3 of this Appendix G. Monthly energy production is determined by calculating the kWh/AF value of the plant associated with the average Lloyd-Eleanor Reservoir elevation and average turbine flow rate.

(g) Generator output for each unit at Kirkwood Powerhouse is determined on the basis of power curves shown on Drawing SK-670809-GGB-3 provided by City. When Hetch Hetchy Reservoir is not spilling, maximum plant output is limited to a turbine flow rate of 700 CFS. When Hetch Hetchy Reservoir is spilling, maximum plant output is limited to a turbine flow rate of 900 CFS. Monthly energy production is determined by calculating the kWh/AF value of the plant associated with the average Hetch Hetchy Reservoir elevation and average turbine flow rate.

(h) Generator output for Moccasin Powerhouse is a constant value of 90.7 MW and 1,059 kWh/AF based on power curves shown on Drawing SK-720111-TLC-2 provided by City.

(i) Fish releases are from the current agreements between City and California Department of Fish and Game and/or U.S. Fish and Wildlife Service are as follows:

Lloyd-Eleanor Fish Release

Jan - Jul = 10 CFS

Jul - Sep = 30 CFS

Oct - Dec = 10 CFS

Hetch Hetchy Fish Release

The minimum amount of water to be released from Hetch Hetchy Reservoir to the Tuolumne River is in accordance with Table 2 of this Appendix G. It is assumed that the fish release required below Hetch Hetchy Reservoir is also required below Early Intake.

(j) A maximum flow limit of 700 cubic feet per second (CFS) in the Mountain Tunnel. Kirkwood Powerhouse passes no more than 700 CFS unless Hetch Hetchy Reservoir is spilling.

(k) An aqueduct demand of 275 MGD whenever Hetch Hetchy Reservoir is below Minimum Storage Criteria which reduces to 220 MGD during Dry Years.**

(l) During times when the Lloyd-Eleanor Reservoir is below Minimum Storage Criteria the average monthly flow rate at Holm Powerhouse is maintained at 252 CFS.

(m) Monthly inflows to Hetch Hetchy Reservoir and to Lloyd-Eleanor Reservoir for calendar years 1919-1980 as supplied by City.

In the event of a request for redetermination pursuant to Section 6.2 of the Agreement the assumptions listed above and other relevant assumptions

consistent with Section 6.2.1 (a), (b), (c) or (d) of the Agreement, shall be updated. Item (m) of this Appendix G shall also be updated to include the most recent available data. The project capability shall again be based on the August 1977 water conditions except that in the event of a sustained drought in which the theoretical annual energy production for the Service Area is less than that which occurred in 1977 then the year of such minimum theoretical annual energy production shall be utilized pursuant to Section 6.2.3 of this Agreement. PDC shall not exceed the total project capability and must be supported by the associated Minimum Project Energy for Non-dry and Dry Years** as determined in the new study. PDC shall not exceed any of the following:

(a) Aggregate plant capability.

(b) 260 MW x (Minimum Project Energy in MWH as determined in the new study)/1,048,890 for Non-Dry Years.

(c) 260 MW x (Minimum Project Energy in MWH as determined in the new study)/886,920 for Dry Years.

where:

"Minimum Project Energy" is the minimum energy that is produced by the project for Non-dry and Dry Years** as defined in Appendix F.

TABLE 1

Hetch Hetchy Reservoir			Lloyd-Eleanor Reservoir		
Elevation (Feet)	Storage (AF)	Area (Acres)	Elevation (Feet)	Storage (AF)	Area (Acres)
3,512	0	0	4,400	0	0
3,530	3,300	200	4,480	1,500	310
3,580	39,500	870	4,520	19,700	610
3,620	76,500	980	4,540	38,900	770
3,660	119,900	1,220	4,560	60,800	900
3,700	175,000	1.500	4,580	85,100	1,100
3,720	206,000	1,590	4,620	139,900	1,540
3,740	238,900	1,690	4,640	178,500	2,070
3,760	273,700	1,790	4,660	227,200	2,550
3,780	310,400	1,870	4,680	263,200	2,750
3,800	348,600	1,950	4,700	297,900	3,130
3,810	369,100	1,970	4,705	307,000	3,300

The above elevation-storage data was derived from information published in "USGS Water Resources Data". The surface area data was derived from information presented in the Tuolumne River Flow Accounting. Intermediate data points are determined by interpolation.

TABLE 2

	Minimum Release Schedules (cfs)			Cumulative Precip. (inches)/runoff (acre-feet)		
	A	B	C	A	B	C
				Equal to or greater than:	Less than Col. A but equal to or greater than:	Less Than Col. B
January	50	40	35	8.8	6.1	---
February	60	50	35	14.0	9.5	---
March	60	50	35	18.6	14.2	---
April	75	65	35	23.0	18.0	---
May	100	80	50	26.6	19.5	---
June	125	110	75	28.5	21.3	---
July	125	110	75	575,000	390,000	---
August	125	110	75	640,000	400,000	---
September 1-15	100	80	75	---	---	---
September 16-30	80	65	50	---	---	---
October	60	50	35	---	---	---
November	60	50	35	---	---	---
December	50	40	35	---	---	---

Determination of applicable schedule (A, B, or C) is to be made on the first of each month during January through August. Determinations for January through June are to be based on cumulative precipitation at Hetch Hetchy since October 1 of the preceding year. Determinations for July and August are to be made based on calculated cumulative runoff into Hetch Hetchy since October 1 of the preceding year. The release schedule which is in effect on August 1 of each year shall remain in effect until the following January.

TABLE 3

Lloyd-Eleanor Reservoir		Holm Powerhouse	
Elevation (Feet)	Storage (AF)	Turbine Flow (CFS)	Output (MW)
4,480	1,500	830.5	128.0
4,520	19,700	837.8	131.0
4,540	38,900	841.5	133.0
4,560	60,800	845.1	134.5
4,580	85,100	848.7	137.0
4,620	139,900	855.9	140.5
4,640	178,500	859.4	142.0
4,660	227,200	863.0	143.0
4,680	263,200	866.5	145.0
4,700	297,900	870.0	147.0
4,705	307,000	870.9	148.0

Intermediate data points are determined by interpolation.

APPENDIX H

SCHEDULING

APPENDIX H

SCHEDULING

1 General

All schedules submitted by City to PG&E pursuant to Section 5.2 and this Appendix G shall be made at the scheduling point agreed to by the Parties and include adjustments for losses pursuant to Exhibit D-2 of Appendix D. The schedules shall be transmitted by City to PG&E's Energy Control Center as provided in this Appendix G or as otherwise agreed by the Parties.

2 Monthly Preschedule

Not less than five (5) Work Days before the end of each calendar month, City shall provide PG&E a written preschedule for the following month specifying City's best estimates of the following information and other information as agreed by the Parties. Such information shall be provided on a half-hourly basis for typical weekdays, Saturdays and Sundays and holidays and totaled for the month. City's best estimate of its purchases of Maintenance Power, Supplemental Power and Spinning Reserve from PG&E shall be provided for each half-hour of the following month.

Monthly preschedule is to include:

(a) City Plants' total generation and maximum generation;

(b) Maintenance Power from PG&E;

(c) Supplemental Power from PG&E;

(d) Firm Power purchases from Third Parties;

(e) Interruptible Power purchases from Third Parties;

(f) Municipal Load;

(g) Municipal Deviation Account correction;

(h) City sales to Modesto*;

(i) City sales to Turlock*;

(j) City sales to Airport Tenants;

(k) City sales to Riverbank;

(l) City sales to Assigned Customers;

(m) City sales to other Third Parties;

(n) Amount and sources of City Spinning Reserve, including that provided for Third Parties.

City shall also advise PG&E of any known or expected events or occurrences that may impact the operation of City Plants or City transmission facilities.

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*Separate schedules for firm and nonfirm sales may be required to establish City's spinning reserve requirement or to record City's satisfaction of Firm Obligations to Districts.

3 Daily Preschedule

City shall transmit daily to PG&E's Energy Control Center a detailed half-hourly preschedule of the transactions shown below and any other information as agreed by the Parties. Such transmittal shall be transmitted over the data link established in conjunction with this Agreement by 2:00 p.m. of the Work Day prior to the day(s) the preschedule is to become effective. Such prescheduled amounts are to be in tenths of a megawatt, except for transactions involving Third Parties outside the PG&E Control Area and with the California Department of Water Resources. Such excepted transactions are to be prescheduled in whole megawatts with the tenths of a megawatt always shown as zero.

Daily preschedule is to include:

(a) City Plants' Generation;
(b) Maintenance Power from PG&E;
(c) Emergency Power from PG&E;
(d) Supplemental Power from PG&E;
(e) Firm Power purchases from Third Parties;
(f) Interruptible Power purchases from Third Parties;
(g) Municipal Load;

(h) Municipal Energy Deviation Account correction;

(i) City sales to Modesto*;

(j) City sales to Turlock*;

(k) City sales to Airport Tenants;

(l) City sales to Riverbank;

(m) City sales to Assigned Customers;

(n) City sales to other Third Parties;

(o) Amount and sources of City Spinning Reserve, including that provided for Third Parties.

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*Separate schedules for firm and nonfirm sales may be required to establish City's spinning reserve requirement or to record City's satisfaction of Firm Obligations to Districts.

In addition, City shall transmit by voice communication to PG&E's Energy Control Center all preschedule information that involves transactions with Third Parties outside the PG&E Control Area or with the California Department of Water Resources. Such information shall be in whole megawatts on an hourly basis.

City shall also advise PG&E of any known or expected events or occurrences that may impact the operation of City Plants or City transmission facilities.

4 Schedule Adjustments

City may adjust a preschedule at any time up to ten (10) minutes before midnight of the day prior to the day the preschedule is to become effective as the schedule of the day. The preschedule shall be adjusted so that it will reflect the most current information when it becomes the schedule of the day.

At midnight, the preschedule provided pursuant to Section 3 of this Appendix G and as adjusted pursuant to this Section 4 of this Appendix G shall become the schedule of the day.

City may adjust the schedule of the day at any time up to ten (10) minutes prior to the start of the next active half-hourly period for any succeeding half-hourly period of the schedule of the day, including such next active half-hourly period.

City may adjust the schedule of the day for an active half-hourly period one time up to twenty (20) minutes into such active half-hourly period.

All schedule or preschedule adjustments that involve transactions with Third Parties outside the

PG&E Control Area or with the California Department of Water Resources shall also be transmitted from City by voice communication to PG&E's Energy Control Center. Such adjustments shall be hourly amounts in whole megawatts and may be made only up to twenty (20) minutes prior to the active hourly period. Such adjustments shall become effective at the beginning of such active hourly period for the entire hour.

5 Forced Outages

If, during any active half-hourly period, a Forced Outage occurs at a City Plant or on City transmission facilities, City shall notify PG&E within ten (10) minutes of such outage. City shall schedule within ten (10) minutes of such outage (both by voice communication with and over the data link to PG&E's Energy Control Center) any required Emergency Power from PG&E in accordance with Section 2.6 of this Agreement.

If Emergency Power is not immediately required from PG&E, the Parties' dispatchers and/or schedulers shall discuss the expected availability of the City Plants or City transmission facilities and agree on the appropriate actions. After such agreement has been reached, City shall adjust schedules accordingly (both

by voice communication with and over the data link to the PG&E Energy Control Center).

6 Final Schedule

The final schedule shall be the daily preschedules adjusted according to Sections 4 and 5 of this Appendix H. PG&E shall bill City in accordance with Section 8 of the Agreement based on summations of the final daily schedules and actual data for the Billing Period.

APPENDIX I

PLANNING DATA AND FORECAST

APPENDIX I

PLANNING DATA AND FORECAST

1 General

Within thirty (30) days from the Effective Date, and thereafter not later than March 1 of each Year, the Parties shall exchange forecasts and other planning information as provided in this Appendix I and other planning information as agreed by the Parties.

(a) Monthly generation of City Plants and Supplemental Power purchases under critical, average and wet hydrological conditions.

(b) Planned resource additions.

Planning data for the current and nine (9) succeeding years shall include:

(c) Monthly Forecasted Municipal Load, including energy load and peak demands.

(d) Monthly Firm Power deliveries to Districts, including energy and peak demands.

(e) Monthly Airport Tenants' and Riverbank's load, including energy and peak demands.

(f) The monthly amount of Supplemental Power and Maintenance Power to be supplied by PG&E to City.

(g) The amounts and sources of City Capacity Reserve and Spinning Reserve. City shall specify the level of Capacity Reserve it desires to purchase from PG&E pursuant to Sections 2.8 and 4.

(h) Third Party purchases and sales.

APPENDIX J

ACCOUNTING

APPENDIX J

ACCOUNTING

Supplemental Power, Maintenance Power, Emergency Power, Reserves and Firm Transmission and Distribution Service purchases and Assigned Customer sales will be determined pursuant to this Appendix J.

1 Energy Billing Parameters

1.1 Energy Deficiency/Surplus - Supplemental Power energy purchases and/or Assigned Customer energy sales will be determined by the following procedure. Quantities shall be adjusted for losses to a common point.

(a) The City's energy deficiency or surplus for each half-hour will be:

$$\text{deficiency/surplus} = \underbrace{(A+B+C+D+E+F)}_{\text{Resources}} - \underbrace{(G+H+I+J+K+L)}_{\text{Loads}}$$

where:

A = actual current generation from City Plants.

B = Maintenance Power scheduled in accordance with Sections 2.5, 5.3, 5.7, and Appendix H.

C = Emergency Power scheduled in accordance with Sections 2.6, 5.3 and Appendix H

D = Any Retail Power as determined in Section 8.1.2.

E = Power scheduled from Third Parties in accordance with Section 5.3 and Appendix H.

F = Any adjustment agreed to by the Parties.

G = Scheduled Municipal Load.

H = City's Firm Energy sales scheduled to the Districts in accordance with Section 5.3 and Appendix H.

I = City's Nonfirm Energy sales scheduled to the Districts in accordance with Section 5.3 and Appendix H.

J = Airport Tenants load.

K = Riverbank load.

L = Power scheduled to Third Parties in accordance with Section 5.3 and Appendix H.

M = Any adjustment agreed to by the Parties.

Any negative results are deficiencies, and any positive results are surpluses.

(b) All surpluses for each half-hour in the Billing Period will be grouped by Time Periods. A monthly statement will be prepared showing the resulting net surplus in each Time Period for the current Billing Period.

(c) Surpluses in any Time Period will be accounted for pursuant to Section 8.1.5.

(d) Deficiencies for each half-hour in the Billing Period will be accounted for pursuant to Section 8.1.7.

1.2 <u>Maintenance Power and Emergency Power Energy Scheduled From PG&E</u> - Maintenance Power and Emergency Power energy will be the total half-hourly amounts of such energy scheduled in accordance with Section 5.3 and Appendix H.

2 Demand Billing Parameters

2.1 Supplemental Power Demand - Supplemental Power demand for each Billing Period shall be the maximum half-hour demands determined by the following calculations:

Supplemental Demand (1)

half-hour demand = A + B - C + D, where

A = Airport Tenants load,

B = Riverbank load,

C = Firm Power delivered from Third Parties, and

D = Any adjustment agreed to by the Parties

Supplemental Demand (2)

half-hour demand = (E - I - J + K), or zero, whichever is greater, where:

E = ((F+G)-H) or zero, whichever is greater,

F = Actual Municipal Load less Retail Power as determined in Section 8.1.2,

G = City's firm deliveries to Districts, not to exceed PDC less scheduled Municipal Load,

H = Actual current generation from City Plants plus any

Maintenance Power, Emergency Power or any unused capacity associated with Supplemental Demand (1) purchased by City from PG&E, or PDC, whichever is less,

I = Firm Power delivered from Third Parties and that is not being used for Supplemental Power Demand (1) deliveries (See variable 'C' above).

J = Reserves adjustment as described in Section 3.1.1. of this Appendix J, and

K = Any adjustment agreed to by the Parties.

2.1.1 If the number resulting from variable 'E' in the formula in Section 2.1 of Appendix J is less than the deviation band established pursuant to Section 2.1.3 of this Appendix J and is caused by differences between the actual and scheduled Municipal Load or actual and scheduled generation from City Plants, variable 'E' shall be deemed to be zero.

2.1.2 If the number resulting from variable 'E' in the formula in Section 2.1 of this Appendix J is greater than the deviation band established pursuant to Section 2.1.3 of this Appendix J and is caused by differences between actual and scheduled Municipal Load or actual and scheduled generation from City Plants, variable 'E' shall be reduced by the deviation band first. That result, but not less than zero, shall be used for variable 'E'.

2.1.3 The deviation bands established pursuant to this Section 2.1.3 of this Appendix J are not intended to serve as a City resource, but are intended to facilitiate a process of City converting to operational dispatch of City resources to meet City loads. If PG&E demonstrates that the deviation band is serving as a City resource, the deviation band shall be reduced to 1 MW immediately and shall remain at 1 MW for the term of the Agreement.

The following deviation bands shall apply to this Section 2.1 of this Appendix J:

1988	5 MW
1989	3 MW
1990 and after	2 MW, unless otherwise adjusted by the Parties

2.2 <u>Maintenance Power and Emergency Power Demand Scheduled from PG&E</u> - Maintenance Power and Emergency Power demand shall be the maximum simultaneous half-hour purchase of Maintenance Power and Emergency Power scheduled in accordance with Section 5.3 and Appendix H.

3 <u>Reserve Billing Parameters</u>

3.1 City Capacity Reserve purchased from PG&E shall be the annual amount committed by City pursuant to Sections 2.8 and 4 and Appendicies C and I and purchased by City pursuant to Section 4.1.5.

3.1.1 The Parties agree that City may use such Capacity Reserve during Non-dry Years, as defined in Appendix F, as an off-peak period credit against Supplemental Power Demand (2) up to the amount of Capacity Reserve purchased by City less any amount used for Spinning Reserve, Maintenance Power or Emergency Power. City may use such Capacity Reserve during Dry-Years, as defined in Appendix F, as a credit against Supplemental Power Demand (2) up to the amount of Capacity Reserve purchased from PG&E less any amount used for Spinning Reserve, Maintenance Power or Emergency Power.

3.2 City Spinning Reserve purchased from PG&E shall be as provided in Appendix A.

4 Firm Transmission and Distribution Service Billing Parameters

4.1 Firm Transmission and Distribution Service to Municipal Load purchased from PG&E for each Billing Period shall be based on the actual energy deliveries to Municipal Load pursuant to Section 3.1.1, adjusted for losses pursuant to Exhibit D-2 of Appendix D.

4.2 Other firm transmission service at interconnections or for Supplemental Power purchased from PG&E for each Billing Period shall be as provided in Section 3.1.2 and Appendix A.

4.3 Interruptible transmission service at Interconnections from PG&E for each Billing Period shall be as provided in Section 3.1.4 and Appendix A.

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